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Finanční analýza společnosti Wal-Mart Stores
Financial Analysis of the Wal-Mart Stores Company

Student: Mengting Ren

Supervisor of the diploma (bachelor) thesis: Ing. Aleš Kresta, Ph.D.

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1. Introduction
2. Description of the financial analysis methodology
3. Characterization of the Wal-Mart Stores company
4. Financial analysis of the company
5. Conclusion

Bibliography
List of Abbreviations
Declaration of Utilization of Results from the Bachelor Thesis
List of Annexes
Annexes

References:

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VYSOKÁ ŠKOLA BÁŇSKÁ-TECHNICKÁ UNIVERZITA OSTRAVA Ekonomická fakulta 1

Ing. Iveta Ratmanová, Ph.D.
Head of Department

prof. Dr. Ing. Dana Dluhošová
Dean of Faculty

The declaration
"Herewith I declare that I elaborated the entire thesis, including all annexes, independently."

Ostrava dated May 10, 2013

Mengting Ren

……...…….

Student's name and surname

Contents

1. Introduction

Financial analysis is a process of selecting, evaluating and interpreting financial data. The aim is to assess the company's present and future financial position and financial health. The main goal of financial analysis is to provide the information to company' management to help them make decisions. Thus it is very important, even now in the time after the financial crisis (when a lot of companies bankrupted).

The objective of the thesis is to assess the financial performance of Wal-Mart Store Company, based on data from years 2007 to 2011. In this thesis, we use financial analysis methods to analyze the company's income statements, balance sheets and cash flow statements. By this way the overall evaluation of this company is assessed.

There are five main chapters in the thesis. The first part is introduction which indicates the structure and some basic information about each chapter.

The second part is methodological. In this chapter we introduce 3 methods, which can be utilized to analyze the financial statements of the company. They are: common-size analysis which includes vertical analysis and horizontal analysis; financial ratio analysis, there are described some financial formulas and their meaning; also the pyramidal decompositions and influence quantification is described at the end of the chapter. The fundamental example of the pyramidal decomposition is the DuPont analysis. Two methods of influence quantification, specifically the method of gradual changes and logarithmic decomposition method, are introduced.

The third part of the thesis gives some basic information about Wal-Mart Store Company. In this part we describe Wal-Mart's history, business strategies information and other useful information. By using such information, we get a general understanding of the situation of this company.

The following part (the fourth one) is application, so it is the most important part of the thesis. The methodology of financial analysis, which is described in the second chapter, is applied to analyze the financial situation and the development of Wal-Mart Store Company during the selected period. Basic financial ratio groups, such as activity ratios, liquidity ratios, solvency ratios and profitability ratios are examined. Simply speaking we can say that,

activity ratios measure how well the company uses its assets; liquidity ratios measure company's ability to meet its immediate or short-term liabilities and obligations; solvency ratios measure company's ability to meet its long-term obligations; profitability ratios measure the ability to generate profit from invested capital in the form of return during the period. In the last part of the chapter the DuPont analysis is applied to evaluate the financial data.

The last part is conclusion of thesis. In this chapter the findings about the Wal-Mart Company and results obtained in the thesis are summarize.

2. Description of the Financial Analysis Methodology

The measurement of the company's performance is important and difficult part of financial management. In this chapter, the three methods to analyze company's performance are described. They are common-size analysis, financial ratios analysis and DuPont analysis. While the common-size analysis describes only the structure and its change throughout the time, the financial ratio analysis shows the performance of the company (described as the relationship between particular items of the statements) in the following fields: activity, liquidity, solvency and profitability. In the remainder of this chapter the DuPont analysis is described. The DuPont analysis is utilized for the decomposition of a chosen financial ratio (usually ROE).

2.1 Common-size Analysis

Common-size analysis is based on the financial statements and other accountant data. Its purpose is to analyze the viability, stability and profitability of a company. There are two types of common-size analysis: vertical common-size analysis and horizontal common-size analysis.

2.1.1 Vertical common-size analysis

Vertical analysis is a method of analyzing financial statements in which each item of the statement is represented as a percentage of this financial statement item compared to the base item,

$$IP_t = \frac{I_t}{B_t}, \tag{2.1}$$

where I_t is the value of the item and B_t is the value of the base. Usually total assets or

revenues are utilized as the base. For example, if total revenues were $200,000 and total wage expense was $50,000; total wage expense would equal to 25 percent of the total revenues. In other words, for every $1 in sales 25 cents goes to employee wages. Another example could be presented for balance sheet: if owner's equity is $240,000 and equity and liabilities (in total) are $400,000, than the value of the equity could be presented as 60 percent ($240,000 divided by $400,000).

This method of analysis may be used with both balance sheets and income statements (as shown in examples above) as a way of coherently comparing large monetary amounts and making sense of the data. The main advantage of vertical analysis is that the balance sheets of the company can easily be compared. It also makes it easy to see relative annual changes within one business. So, the company can reveal possible trends or areas that they need to improve.

2.1.2 Horizontal common-size analysis

Horizontal analysis refers to a type of fundamental analysis method in which we can use certain financial data to assess a company's performance over time. In horizontal analysis approach, a base year is selected and the dollar amount of each financial statement item in subsequent years is converted to a percentage of the base year dollar amount. Assuming 2008 as the base year with revenues $100,000, the revenues $108,000 (in 2009) and $120,000 (in 2010) are 108% and 120% of the base year amount. Similar computations would be made for the remaining income statement items (and balance sheet items). The values can be computed according to the following formula:

$$\Delta I_t = \frac{I_t - I_{t-\Delta t}}{I_{t-\Delta t}}, \tag{2.2}$$

where I_t stands for the value of the item in the assumed year and $I_{t-\Delta t}$ stands for the value of the item in the base year.

The value of horizontal analysis lies in its usefulness in comparing the results of

analyzed company over time to determine whether its financial situation is improving. It is also useful for comparing the results of multiple companies in the same industry to determine which company has the best performance over time.

2.2 Financial ratio analysis

Ratios are approach of expressing the relationship between financial accounts (items) or some other information about company's financial performance, financial statements and other information in order to assess financial condition. It is important index to judge if the company is financially healthy and stable. The description in this chapter is based on the following references: Wahlen et al. (2010) and Fridson and Alvarez (2011).

2.2.1 Activity ratios analysis

Activity ratios are also known as asset utilization ratios or operating efficiency ratios. This category of indicators is intended to measure how well a company manages various activities, particularly how efficiently it manages its various assets. Activity ratios are analyzed as indicators of ongoing operational performance — how effectively assets are used by a company. These ratios reflect the efficient management of both long-term assets and current assets. Efficiency has a direct impact on liquidity (the ability of a company to meet its short – term obligations), so some activity ratios are also useful in assessing the liquidity. The presented methodology is based on the relationship between turnovers and average collection periods. Clearly they are just the inverse value of each other.

a) Inventory Turnover

Inventory turnover lies at the heart of operations for many entities. It indicates the resources (money) tied up in inventory (i.e., the carrying costs) and can, therefore, be used to indicate inventory management effectiveness. It can be computed as follows,

$$\text{Inventory Turnover} = \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}. \tag{2.3}$$

b) Receivable Turnover

Receivable turnover ratio is the ratio of sales revenue divided by average receivable. It shows the speed of flow of receivables; particularly it is the annual average quantity of changes of receivables into cash. It can be computed as follows,

$$\text{Receivable Turnover} = \frac{\text{Net Credit Sales}}{\text{Average Net Receivables}}. \tag{2.4}$$

Generally a high value of accounts receivable turnover is favorable. But a normal level of receivables turnover is different for different industries.

c) Payable Turnover

Accounts payable turnover ratio is an accounting liquidity metric that evaluates how fast a company pays off its creditors. The ratio shows how many times in a given period (typically 1 year) a company pays its average accounts payable. An accounts payable turnover ratio measures the number of times a company pays its suppliers during a specific accounting period in average, it can be computed as follows,

$$\text{Payable Turnover} = \frac{\text{Total Purchases}}{\text{Average Payable}}. \tag{2.5}$$

The higher value of accounts payable turnover is favorable.

d) Total Asset Turnover

Total asset turnover is the ratio of the revenues to the total assets. This ratio indicates the extent to which the investment in total assets results in revenues. It can be computed as follows,

$$\text{Asset Turnover} = \frac{\text{Net Sales}}{\text{Total Asset}}, \tag{2.6}$$

If a company can generate more sales with fewer assets it has a higher turnover ratio which

tells it is a good company because it is using its assets efficiently.

e) Working Capital Turnover

Working capital is a financial metric which represents operating liquidity available to a business, organization or other entity, including governmental entity. Net working capital is calculated as current assets minus current liabilities. This ratio indicates whether a company has enough short term assets to cover its short term debt.

Working capital turnover is a formula that is used to assess how well a business is utilizing the working capital that is currently available to the business. Measurements of this type can help a company avoid wasteful spending. It can be computed as the ratio of total revenues and average working capital,

$$\text{Working Capital Turnover} = \frac{\text{Total Revernue}}{\text{Average Working Capital}}. \tag{2.7}$$

f) Inventory Conversion Period

The number of days a company ties up fund in inventory is determined by the total amount of money represented in inventory and the average day's cost of goods sold. We compute the Inventory Conversion Period by calculating the ratio of the amount of inventory on hand to the average day's cost of goods sold. It can be computed as follows,

$$\text{Inventory Conversion Period} = \frac{\text{Inventory} \cdot 365}{\text{Cost of GoodsSold}}. \tag{2.8}$$

g) Average Collection Period

The Average Collection Period, which is the length of the time between a sale when an account receivable is created and the collection of the account receivable in cash,

$$\text{Average Collection Period} = \frac{\text{Accounts Receivable} \cdot 365}{\text{Annual Credit Sales}}. \tag{2.9}$$

h) Average Payment Period

The average payment period is a measurement of how long time it takes on average for a business to pay back its creditors. It can be computed as follows,

$$\text{Average payment period} = \frac{\text{Accounts payable} \times 365}{\text{Annual Credit Purchases}}. \quad (2.10)$$

i) Degree of Operating Leverage

The Degree of Operating Leverage (henceforth DOL) is the leverage ratio that sums up the effect of an amount of operating leverage on the company's earnings before interests and taxes (EBIT). Operating Leverage takes into account the proportion of fixed costs to variable costs in the operations of a business. If the degree of operating leverage is high, it means that the earnings before interest and taxes would be unpredictable for the company, even if all the other factors remain the same. It can be computed as follows,

$$\text{DOL} = \frac{\text{Percent Change in Operating Income}}{\text{Percent Change in Revenues}}. \quad (2.11)$$

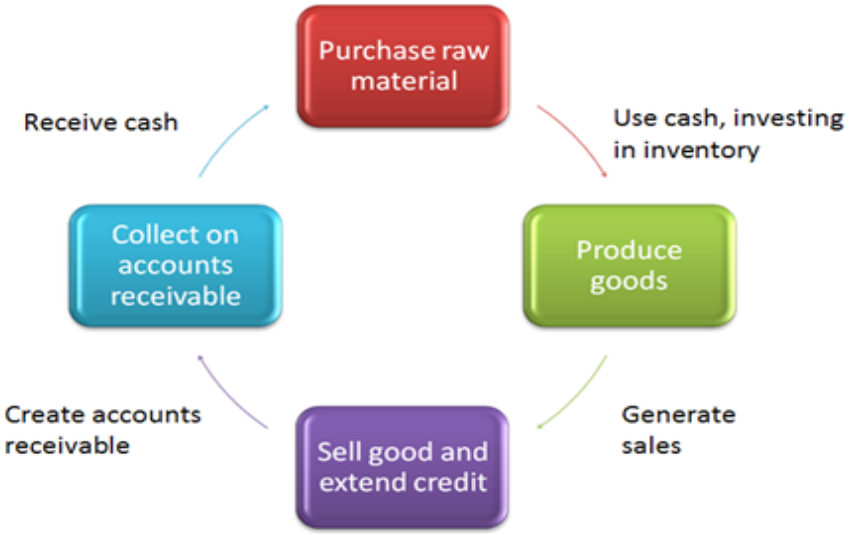
2.2.2 Liquidity ratios analysis

Liquidity reflects the ability of a company to meet its short-term obligations using assets that are most readily converted into cash. Assets that may be converted into cash in a short period of time are referred to as liquid assets and they are listed in financial statements as current assets. These liquid assets are also often referred to as the company's working capital because these assets represent the resources needed for the day-to-day operations of the company's long-term, capital investments. Current assets are used to satisfy short-term obligations, or current liabilities. The amount by which current assets exceed current liabilities is referred to as net working capital.

How much liquidity a company needs depends on its operating cycle. The operating cycle is the duration between the time cash is invested in goods and services to the time that investment produces cash. For example, a company that produces and sells goods has an

operating cycle comprising the four phases as suggested in Chart 2.1.

Chart 2.1: The role of the operating cycle



a) Current Ratio

Current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations. In this ratio we compare the total of current assets to the current liabilities, assuming that the current assets could be quickly converted into the cash. So this ratio is as follows,

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilitie s}}. \qquad (2.12)$$

b) Quick Ratio

Also quick ratio is an indicator of a company's short-term liquidity. The quick ratio measures a company's ability to meet its short-term obligations with its most liquid assets. From the total current assets we subtract inventory, because it is assumed to be not so liquid,

$$\text{Quick Ratio} = \frac{\text{Cash} + \text{Marketable Securities} + \text{Receivable}}{\text{Current Liabilitie s}}, \qquad (2.13)$$

the higher the value of the quick ratio the better the position of the company with respect to the liquidity.

c) Cash Ratio

This ratio shows up what percentage of the current liabilities the company can immediately pay out by its cash and cash equivalents. The cash ratio is most commonly used as a measure of company liquidity. The computation is as follows,

$$\text{Cash Ratio} = \frac{\text{Cash} + \text{Marketable Securities}}{\text{Current Liabilities}}. \tag{2.14}$$

d) Operating Cash Flow Ratio

The operating cash flow ratio (henceforth OCF) measures a company's ability to pay its short term liabilities from the operational cash flow. The ratio states the portion of short term liabilities, which can be paid out from operational cash flow and thus can be computed as follows,

$$OCF = \frac{\text{Cash flows from Operations}}{\text{Current liabilities}}. \tag{2.15}$$

2.3 Solvency ratios analysis

Solvency ratios measure a company's ability to meet long-term obligations. Subsets of these ratios are also known as "leverage" and "long-term debt" ratios.

a) Debt-to-Assets Ratio

This ratio reveals the leverage that management has imposed on the balance sheet by acquiring debt. Interpretation of this ratio is how much of each dollar of assets is financed by the debt,

$$\text{Debt - to - Assets Ratio} = \frac{\text{Total Debt}}{\text{Total Assets}}. \tag{2.16}$$

b) Long-term debt-to-Assets Ratio

Long-term-debt-to-assets ratio is a measurement representing the percentage of a corporation's assets that are financed with loans and financial obligations lasting more than one year. The ratio provides a general measure of the financial position of a company, including its ability to meet financial requirements for outstanding loans,

$$\text{Long - term debt - to - Assets Ratio} = \frac{\text{Long - term Debt}}{\text{Total Assets}}, \tag{2.17}$$

High long-term debt-to-asset ratio means high proportion of a company's assets that is financed with long-term debt.

c) Debt-to-Equity Ratio

The debt-to-equity ratio (D/E) is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets.

$$\text{Debt - to - Equity Ratio} = \frac{\text{Total Debt}}{\text{Total Equity}}. \tag{2.18}$$

d) Financial Leverage Ratio

Financial leverage can be aptly described as the extent to which a business or investor is using the borrowed money and it also indicates the extent to which the business relies on debt financing. It's a ratio used to measure its ability to meet financial obligations or measure a company's mix of operating costs, giving an idea of how changes in output will affect operating income. It can be computed as follows,

$$\text{Financial Leverage Ratio} = \frac{\text{Total Asset}}{\text{Total Equity}}. \tag{2.19}$$

e) Interest Coverage Ratio

Interest coverage ratio is a measure of a company's ability to pay its interest expenses

(from the debt).Actually it shows how many times bigger interest payments the company can cover from EBIT. The computation of the ratio is as follows,

$$\text{Interest Coverage Ratio} = \frac{\text{EBIT}}{\text{Interest Payments}}. \tag{2.20}$$

A high or increasing Interest Coverage Ratio is usually a positive sign, showing the company is better able to pay its Interest Expense with its earnings. An interest coverage ratio below 1.0 indicates the business is having difficulties generating the cash necessary to pay its interest obligations. Depending on the industry, a ratio value of 1.5 to 2.0 is desirable.

f) Cash-Flow-to Debt Ratio

Cash flow to debt ratio compares the operating cash flow of a firm to the debt. This is the quantity of years needed for operational cash-flow to pay out the total debt. Total debt includes short-term debt, the current portion of long-term debt and long-term debt. This indicates the firm's ability to cover total debt payment with its cash flow generated from operating activities. This ratio can be calculated as follows,

$$\text{Cash-Flow-to Debt Ratio} = \frac{\text{Cash Flow From Operation}}{\text{Total Debt}}. \tag{2.21}$$

2.2.4 Profitability ratios analysis

Profitability ratios measure the company's ability to generate profitable sales from its resources (assets).Actually, it measures the profit (or income) to some base. Generally，the higher the profitability ratios the better competitive position of the company. The utilized profit can be EBIT (earnings before interest and taxation), EBT (earnings before taxes) or EAT (earnings after taxes).

a) Gross Profit Margin

A financial metric used to assess a firm's financial health by revealing the proportion of

money left over from revenues after accounting for the cost of goods sold. Gross profit margin serves as the source for paying additional expenses and future savings. Gross profit margin can be computed as follows,

$$\text{Gross Profit Magin} = \frac{\text{Gross profit}}{\text{Total Revenue}}. \tag{2.22}$$

b) Operating Profit Margin

Operating profit margin is operating profit for a certain period divided by revenues for that period. Operating profit margin indicates how effective a company is at controlling the costs and expenses associated with their normal business operations. It can be computed as follows,

$$\text{Operating Profit Magin} = \frac{\text{Operating Income}}{\text{Total Revenue}}. \tag{2.23}$$

c) Pretax Profit Margin

Pretax profit margin is a company's earnings before tax (EBT) as a percentage of total sales or revenues. The higher the pre-tax profit margin, the more profitable the company. The trend of the pretax profit margin is as important as the figure itself, since it provides an indication of which way the company's profitability is headed. Pretax profit margin can be computed as follows,

$$\text{Pretax Profit Magin} = \frac{\text{EBT}}{\text{Total Revenue}}. \tag{2.24}$$

d) Net Profit Margin

Net profit margin is the percentage of revenue remaining after all operating expenses, interest, taxes and preferred stock dividends (but not common stock dividends) have been deducted from a company's total revenue. It can be computed as follows,

$$\text{Net Profit Margin} = \frac{\text{Net Profit}}{\text{Total Revenue}}. \tag{2.25}$$

e) Return on Assets (ROA)

ROA is an indicator of how profitable a company is relative to its total assets. It reveals the proportion of assets needed to generate a certain amount of profits, or alternatively what is the profit generated by each one dollar of assets. It shows the efficiency of asset usage. ROA gives an idea as to how efficient management is at using its assets to generate earnings. Calculated by dividing a company's annual earnings by its total assets, ROA is displayed as a percentage,

$$\text{ROA} = \frac{\text{EBIT}}{\text{Total Assets}}. \tag{2.26}$$

f) Return on Equity (ROE)

ROE measures the rate of return on the ownership interest (shareholders' equity) of the common stock owners. It measures a firm's efficiency at generating profits from every unit of shareholders' equity (also known as net assets or assets minus liabilities). Thus, it can be computed as follows,

$$\text{ROE} = \frac{\text{EAT}}{\text{Equity}}. \tag{2.27}$$

2.3 DuPont Analysis

The DuPont analysis is a method for decomposition of a company's return on equity (ROE). The DuPont analysis breaks down a company's ROE by analyzing asset efficiency, turnover ratio, operating efficiency and financial leverage.

DuPont analysis tells us that ROE is affected by three things:

- operating efficiency, which is measured by profit margin,
- asset usage efficiency, which is measured by total asset turnover,
- financial leverage, which is measured by the equity multiplier.

This means, we can decompose the return on equity as follows,

$$ROE = \frac{EAT}{Equity} = \frac{EAT}{Revenues} \cdot \frac{Revenues}{Total\ Assets} \cdot \frac{Total\ Assets}{Equity} . \quad (2.28)$$

After the rearrangements of the equation (2.28), we can express ROE as:

$$ROE = Net\ Profit\ Margin \cdot Assets\ Turnover \cdot Financial\ Leverage . \quad (2.29)$$

Also we can go further and separate the effects of taxes and interest, so we can decompose the profitability as follows:

$$ROE = \frac{EBIT}{Revenues} \cdot \frac{EBT}{EBIT} \cdot \frac{EAT}{EBT} \cdot \frac{Revenues}{Total\ Assets} \cdot \frac{Total\ Assets}{Equity} = \\ = \frac{EBIT}{Revenues} \cdot (1 - \frac{Interest}{EBIT}) \cdot (1 - \frac{Taxes}{EBT}) \cdot \frac{Revenues}{Total\ Assets} \cdot \frac{Total\ Assets}{Equity} . \quad (2.30)$$

2.3.1 Influence quantification of the return on equity

The most utilized methods of influence quantification of the return on equity are the method of gradual changes and logarithmic decomposition method. In the gradual changes method we assume that the particular components change separately one by one, so the order of components is important. On the other hand in the logarithmic method the changes of all components are assumed to happen at the same time.

a) The method of gradual changes

By the method of gradual changes we can analyze particular indicators to find out which component ratios contributed to the change in the basic ratio at most. This enables us to quantify the change in the basic ratio caused by change in the component ratio. The general formula for decomposition for *i*-th component ration is as follows:

$$\Delta x_{a_i} = {}^{\Delta} a_i \cdot \prod_{j<i} a_{j,1} \cdot \prod_{j>i} a_{j,0} , \quad (2.31)$$

where the x is basic ratio (i.e. ROE), the Δx means absolute change in the basic ratio, the a is component ratio and Δa means absolute change in the component ratio.

b) Logarithmic decomposition method

The advantage of this method is that regardless of how many component ratios there are, there is only one formula for the impact of quantification (i.e. the calculation is not dependent on the assumed order of changes in component ratios). Impact of the i-th component ration on the change in the basic ratio is calculated as follows:

$$\Delta x_{a_i} = \frac{\ln I_{a_i}}{\ln I_x} \cdot \Delta x \tag{2.32}$$

,

where the x is basic ratio (in this case ROE), the Δx means absolute change in the basic ratio, $I_x = \frac{x_1}{x_0}$ is the Index of change in basic ratio and $I_a = \frac{a_1}{a_0}$ is the Index of change in component ratio.

3. Characterization of Wal-Mart Store Company

In this chapter, the description of Wal-Mart Store Company is provided. The chapter is divided into four parts. The first part is focused on brief history of the Wal-Mart Store Company. The information of general development of Wal-Mart Store Company is also stated there. The second part is about business strategies of Wal-Mart Store Company. In the third section, the SWOT analysis of Wal-Mart Store Company is stated. The last section is devoted to main competitors' description.

This section is based on the information provided by Wal-Mart website.[1]

3.1 History of the Wal-Mart Store Company

The concept of retail stores grew extremely popular in the United States. Sam Walton, who was convinced that the American consumers wanted something more than retail shops, opened his own discount and retail shop in Rogers, Arkansas. Walton had traveled all across the United States, and had gained a lot of experience pertaining to discount shops.

In 1962, he started the Wal-Mart phenomenon by opening the first store. In the next five years, Walton was able to open 24 stores in Arkansas itself. In 1968, Wal-Mart hired its first commercial pilot for speedy logistics. On October 31, 1969, Wal-Mart stores changed from an establishment to an official incorporated company under the name, Wal-Mart Stores Inc.

The decade that began from the 1970s was period of substantial economic growth. In 1971 a huge expansion started by opening a gigantic center and also a home office in Bentonville, Arkansas. This decade was characteristic by a substantial rise in the number of employees and turnover which amounted to about 1500 associates and sales worth $44.2 million in the beginning of decade. In the year 1975 amazing sales worth $340.3 million was achieved. The company had expanded to 7500 associates and had 125 operational stores. In 1977, in a massive takeover, Wal-Mart acquired the Hutcheson Shoe Company and also

[1] *http://corporate.walmart.com/our-story/*

introduced a branch for pharmaceuticals by the name Wal-Mart pharmacy. By the end of the decade, Wal-Mart had become a giant in the American retail industry with a turnover of more than 1.248 billion dollars in sales and 276 stores managed staff of 21,000 associates.

The two decades of 1980s and 1990s witnessed the transformation of a large national retail chain into a global retail phenomenon. As the company grew, both; in size and in terms of monetary earnings, the operational area also kept on increasing. In 1983, the first Sam's club was opened and it was ranked first among the retail shop chains by the Forbes Magazine. In the year 1988, Wal-Mart's first super center, was inaugurated which later on became a conventional shop in many regions and countries throughout the world. By the end of 1980 decade, Wal-Mart was operating a massive chain of stores that numbered 1,402 normal stores and had 123 Sam's clubs that churned out sales worth $26 billion or more.

In the year 1991, Wal-Mart stepped into the international market by opening a retail unit in Mexico City. In 1996, Wal-Mart entered into Chinese market through a joint-venture agreement.

By 2006, the number of Wal-Mart’s weekly customers rose to more than 176 million around the world. Wal-Mart had recorded net sales of $345 billion. Wal-Mart Company is the world's largest retailer and grocery chain by sales. Over half of the company's sales come from grocery item and over half of the company's stores are located in the United States. China Wal-Mart operates international locations of its Wal-Mart and Sam's Club stores as well as other retail and supermarkets in Central and South America, Mexico, Canada, Japan, China, and the United Kingdom. Today, Wal-Mart has 10,130 stores.

Walton's ideas and efforts have made Wal-Mart one of the organizations that have changed the world. The ideas of retail shops, discount stores and super shops have changed the world of shoppers and consumers. Today the organization employs more than 2.1 million associates and direct employees. The stores of Wal-Mart serve annually more than 176 million consumers worldwide. Sam Walton and Wal-Mart have been successful in setting an example about maintaining values and also managing the never-ending growth and success.

3.2 Business Strategies of Wal-Mart Store Company

Analysts attribute Wal-Mart's success to its strong and pervasive culture. In spite of its huge size and tremendous growth rate, the company retained most of the cultural elements which contributed to its success in the early years. Walton believed that happy and satisfied employees performed well and were responsible for happy customers. Towards this end, he creates a culture which encouraged employees to contribute with their best. It also ensured discipline and uniformity in an organization that was growing at such a rapid pace and had been operating for over 40 years. Wal-Mart's culture was essentially customer-centric and service-oriented. It embodied Walton's dream of creating a store which provide the best value at the lowest prices.

3.2.1 Business Culture of Wal-Mart Store Company

Generally three generic business strategies can be defined. They are the Focus strategy, the Differentiation strategy, and Overall Cost leadership. The Focus strategy is usually defined as focusing on offering products and services to a particular market segment or buyer group, within a segment of a product line, and or to a specific geographic market. The Differentiation strategy is defined as offering a product or service that is perceived as unique in the marketplace. Overall Cost Leadership is defined as offering the same or better quality product or service at a price that is less than what any of the competition is able to do. Wal-Mart‘s business strategy is Overall Cost Leadership, offering their customers great quality service and products at a lower price than their competition.

All big chain supermarkets take low price business strategy. Wal-Mart works hard on achieving its promise that the price is lower than other firms. The rigorous purchase attitude, the perfect delivery system and the advanced inventory management are key factors which contribute Wal-Mart to have lowest cost and the cheapest price. Its founder Walton once said, "We attach importance to the value of every penny, because our service aims to help everyone that is shopping in the store save money. Whenever we saved a dollar, we won the customer's trust. For this reason, he asked each purchasing personnel that the purchasing goods attitude

must be firmly. He warned: “you are not bargaining for the store, but bargaining for customer, we should strive for the best price for the customers.”

Retail enterprises it is not enough to establish brand image in the minds of customers, relying on high quality and low price of the commodity. Customers also want to enjoy the meticulous and gracious service while shopping. Wal-Mart is considering this point, from the customer's perspective, attracting a large number of customers for its superb service. Walton said, "We are all working for the customer, you might think it is working for the boss, but in fact he is the same as you. There is a big boss in our organization outside, which is the customer." Wal-Mart has the excellent service as their supreme duty.

Wal-Mart’s customers can be divided into three groups: “brand aspirations”, people with low incomes who are obsessed with brand; “price-sensitive effluents” – wealthier shoppers who love deals; and finally “value-price shoppers” who like low prices and cannot afford much more. Wal-Mart established customer relationship is based on itself service and automated and towards co-creation of some products once it is possible. Wal-Mart tends to reach to the mass market toward mass customization.

3.2.2 Operating Divisions of Wal-Mart Store Company

Wal-Mart chooses a variety of retail forms according to different grades of target consumers in brand management strategy. It is because Wal-Mart all-round attack to take the high and low market. After the Second World War, the consumer structure hierarchy began to constant change. In view of this change, Wal-Mart determined to take the different management forms of brand strategy.

Wal-Mart’s operations are organized into three divisions: Wal-Mart Stores U.S., Sam's Club, and Wal-Mart International. The company does business in nine different retail formats: supercenters, food and drugs, general merchandise stores, bodegas (small markets), cash and carry stores, membership warehouse clubs, apparel stores, soft discount stores and restaurants.

Wal-Mart Stores U.S.

Wal-Mart Stores U.S. is the company's largest division, accounting for $258 billion (63.8% of total sales for financial year 2010). It consists of three retail formats that have become commonplace in the United States: Discount Stores, Supercenters, and Wal-Mart. The retail department stores sell a variety of mostly non-grocery products, though emphasis has now shifted towards supercenters, which include more grocery items. This division also includes Wal-Mart's online retailer.

From 2008 through 2011, Wal-Mart operated a pilot program in the small grocery store concept called Market side in the metropolitan Phoenix, Arizona area. They plan to take what they have learned from this concept and incorporate that into their newer Wal-Mart Express stores which they are developing.

Sam's Club

Membership is a kind of new form of retail. Sam's Club store is a major feature of Wal-Mart business which founded in 1983; Implement membership brought many benefits to Wal-Mart:

1. Established a long-term and stable consumer market.

2. Has trained a large number of brand loyalists.

3. Membership fee income is considerable. Membership fee is a small number relative to individual, but for many members of the Sam shop, it is a considerable income. On the other hand, a membership is similar to the preferential price of a kind of promotion form; consumer also can obtain many benefits.

Wal-Mart International

Wal-Mart's international operations currently comprise 4,263 stores and 660,000 workers in 15 countries outside the United States. There are wholly owned operations in Argentina, Brazil, Canada, and the UK. With 2.1 million employees worldwide, the company is the largest private employer in the US and Mexico, and one of the largest in Canada. In the

financial year 2010, Wal-Mart's international division sales were $100 billion (24.7% of total sales). Wal-Mart has operated in Canada since its acquisition of 122 stores comprising the Woolco division of Woolworth Canada in 1994. As of July 2010, it operates over 300 locations (including 100 Super Centers) and employs 82,000 Canadians, with a local home office in Mississauga, Ontario.

3.3 SWOT analysis of Wal-Mart Store Company

Wal-Mart Stores operates retail stores in various formats across the world. In the US, the retail formats operated by Wal-Mart include discount stores, supercenters, neighborhood markets, market side, and Sam's Clubs. The company is the largest retailer with unprecedented scale and clout which will enable it to maintain its market position and continue to gain market share from competitors. However, with over two million employees, rising price of labor and healthcare costs will significantly affect Wal-Mart's profitability.

Strengths

A market leader with unprecedented scale gives a competitive advantage.

Wal-Mart is the largest retailer in the world. The scale of its operations is unprecedented and there is no competitor of comparable size. The company has been expanding its clout; Wal-Mart, being a market leader, is able to replicate its best practices constantly on an unmatched scale both in the US and across the world.

Low cost leadership enabling Wal-Mart to offer products at low price points.

Wal-Mart is a price leader and its low cost operations are enabling the company to maintain the position. Wal-Mart's low-price strategy will continue to resonate with lower-income consumers. Due to its positioning, the company has benefited more than most peers from consumers trading down. The company's price leadership ensures a large addressable market, which will drive top-line growth.

Internationalization strategy as a strong foundation for growth.

Wal-Mart has been increasingly focusing on establishing its presence strongly in the international arena. As the markets in the US saturate for Wal-Mart, the international strategy

helps the company to improve returns. International strategy gained prominence for Wal-Mart as the opportunities for growth in the core US markets slowed.

Weaknesses

Big box retailing format led to low penetration into urban areas.

Wal-Mart is a big box retailer and operates supercenters which require large space for every new store. This is limiting expansion of Wal-Mart stores in urban areas where there is limited space available and limited commercial spaces which can provide such large spaces. But trends now suggest that big stores are less attractive. Baby boomers are scaling back, moving into smaller homes closer to urban areas. To avoid such negative effects, Wal-Mart planned slower new store growth, once again limiting the scope for expansion. Therefore, it has become increasingly important for Wal-Mart to innovate a format that can use its current strengths and is more suitable to the urban locations.

Litigations affect labor relations adversely.

Wal-Mart has been facing several charges and law suits with respect to labor relations., such as gender discrimination suit. Wal-Mart has been suffering the ill-effects of such law suits which divert large amounts of money towards counterproductive activities. Additionally, the company's reputation is tarnished and will find itself short of skilled and qualified employees. The employees might demand higher compensation. It will also lead to skilled employees choosing to work with competitors, which will be a key competitive disadvantage.

Opportunities

Outperformance of the retail sectors in emerging markets.

Wal-Mart has presence in several emerging economies and the positive retail trends in these economies will positively impact revenue growth. Economists have long predicted that consumers in emerging economies would not only manufacture most of the world's goods but also buy them. These outperforming sectors in the emerging markets will drive the growth for Wal-Mart as its core US market matures.

Concentration on grocery and food will benefit as eating at home, health and wellness trends continue to emerge.

Eating at home and eating healthy are important trends that are likely to increase the demand for grocery. Additionally, the food and grocery segment will increase the guest traffic into the stores converting into higher sales. Although, Wal-Mart has been a multi-line retailer it has pro-actively increased the share of groceries and food products in the total sales. The positive trends in the market will lead to increased sales in the segment which have higher margins driving the profitability as well.

Growth in internet retailing to serve larger market.

Online retailing has been increasing at a fast pace in the US. In saturated markets where its format has limited expansion models, online channel will be a crucial expansion. With the help of technology, Wal-Mart aims at achieving its long-term target of serving over a billion customers in a week in the upcoming 20 years. The Company has been focusing on establishing a strong presence in the online segment and the growing popularity of the channel will facilitate such expansion.

Threats

Two million employees increase exposure to increasing wages and high healthcare costs.

The labor costs for companies have been rising as the healthcare costs and wages increased in the recent years. Tight labor markets, increased overtime, government mandated increases in minimum wages and a higher proportion of full-time employees are resulting in an increase in labor costs, which could materially impact the company's results of operation. In addition to this, the health care costs for employers in the US are increasing and the new healthcare reforms are bringing more people. These trends have several negative implications for the company which could materially impact the company's results of operation. If revenue growth were to fall below total labor cost inflation or Wal-Mart could no longer squeeze savings out of its supply chain, the rising costs will materially impact the profitability of Wal-Mart. During the next five years, the company further expects to create 500,000 jobs and the rising

costs pose considerable threat for the company due to its large employee base.

Volatility in commodity prices and cost inflation will pressurize margins.

Rapid inflation and fluctuations can cause gross margin shortfalls as grocers have difficulty passing through cost increases. As inflation increased and the shelf price increased, some demand destruction was seen. Therefore, volatility in commodity prices and rising cost inflation will affect margins adversely. Deflation in grocery could have a negative impact on Wal-Mart and it increases the reliance on continually wringing efficiency out of operations and forces lower selling prices from suppliers, which might not be possible for the company. The weak pricing environment for Wal-Mart, increasing PPI and deflation at the consumer's end will severely affect margins for Wal-Mart.

Increasing resistance to expansion from local organizations and authorities.

For several years now, Wal-Mart has been facing severe resistance from several groups when it plans to open new stores. Such as several labor issues etc. Several of these reports have been affecting the decisions made by local authorities which are deterring the expansion plans of Wal-Mart. It is becoming increasingly difficult for Wal-Mart to open new stores as the resistance increases. This is affecting the new investments and the time to open new stores for the company.

3.4 Main competitors

There are three main competitors: Tesco, Carrefour and Metro. These competitors are briefly described below.

Tesco

Tesco is listed on the London Stock Exchange under the symbol TESCO. Tesco's market share in UK is 30.5%, down from 30.8% in 2010. Tesco was first opened by Jack Cohen in 1919 in the East End of London. In 2011, Tesco (the world third largest retailer) gets 5,386 stores with over 500,000 employees and covers an area of 103.6 million square feet(1 sq foot = 0.09290304 m^2) in 14 countries, including UK, China, India, Malaysia, South Korea, Thailand, Czech Republic, Hungary, Ireland, Poland, Slovakia, Turkey, USA, and Japan. Its

group sale is (year ended 26 February 2011) increasing 8.1% when comparing to the year 2010.

Carrefour

Carrefour S.A. is a French multinational retailer headquartered in Boulogne Billancourt, France, in Greater Paris. It is one of the largest hypermarket chains in the world (with 1,395 hypermarkets at the end of 2009), the second largest retail group in the world in terms of revenue, and the third largest in profit (after Wal-Mart and Tesco). Carrefour operates mainly in Europe, Argentina, Brazil, China, Colombia, Dominican Republic, United Arab Emirates and Saudi Arabia, but also has shops in North Africa and other parts of Asia, with most stores being of smaller size than hypermarket or even supermarket. Carrefour means "crossroads" in French. Previously the company head office was in Levallois-Perret, also in Greater Paris.

Metro

Metro AG（Aktien Gesellschaft）is the fourth-largest retailer in the world measured by revenues (after Wal-Mart, Carrefour and Tesco)，It was established in 1964 by Otto Beisheim Metro. It has its own special method to manage their business. 1. The unique management philosophy（Cash and Carry or C＆C). Cash & Carry business provides professional customers with a warehouse-like store where they can pick articles; pay in cash and carry goods away by themselves. The advantage of cash & carry, as opposed to traditional wholesale business, lies in good value for money, wide range of food and non-food assortments, sufficient stock, long business hours, etc. 2. The selling way of Metro is very different from other chain multinational companies. They must have their own propertyright of their stores. Metro is a warehouse-like store. The average area of their shop is more than ten thousand square meters, excepting for the parking lot. So it is more difficult for metro to find a suitable place to operate a store than wall-malt and Carrefour. So they often built the store by themselves.

4. Financial Analysis of Wal-Mart Store Company

In this chapter the financial analysis of Wal-Mart Store Company is provided. The main objective of this chapter is to analyze the Wal-Mart Store Company's financial performance during the years 2007 to 2011 by application of the financial methods which were introduced in the second chapter. In a further step we analyze the development situation of this company by using the data we got. There are three parts of this chapter: common-size analysis, financial ratio analysis and DuPont analysis.

4.1 Common-size Analysis

In this part, we will use common-size analysis to analyze the general situation of Wal-Mart Store Company. This chapter provides horizontal analysis and vertical analysis. The objects of the study are balance sheet, income statement and statement of cash flows.

4.1.1 Vertical common-size analysis

A vertical common - size analysis of income statement divides each income statement item by total revenues, or sometimes by total assets (especially in the case of financial institutions). If there are multiple revenue sources, a decomposition of revenue in percentage terms is useful.

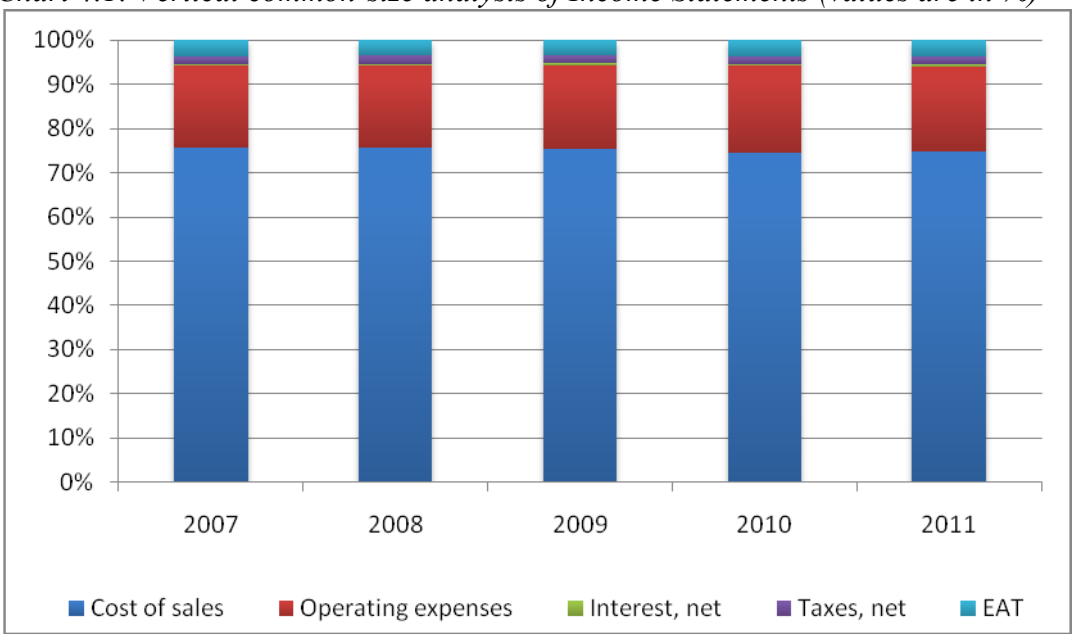
In the Table 4.1, we can see vertical common-size analysis of income statements of Wal-Mart Store Company. This table shows that the cost of sales sold as a percent of sales decreased by 1.02 percentage points (75.76% – 74.74%) between 2007 and 2011. Selling, general and administrative expenses from 2007 to 2011 have shown a steady growth, but the magnitude of the increases is rather small, it has increased from 18.36% to 19.21%. Net paid interests are stable (0.5%), and the same the taxes (around 1.8%). Overall the EAT is stable over the period (actually it is increasing slightly from 3.61% in 2007 to 3.78% in 2011).

Table 4.1: Vertical common-size analysis of Income Statements (values are in %)

items	2007	2008	2009	2010	2011
Revenues	100.00	100.00	100.00	100.00	100.00
Cost of sales	75.76	75.64	75.48	74.63	74.74
Operating, Selling, General and Administrative expenses	18.36	18.56	18.90	19.50	19.21
EBIT	5.88	5.81	5.62	5.87	6.05
Interest, net	0.44	0.47	0.47	0.46	0.48
EBT	5.44	5.33	5.15	5.41	5.58
Taxes, net	1.83	1.82	1.76	1.75	1.80
EAT	3.61	3.51	3.39	3.66	3.78
Income (loss) from discontinued operations, net of tax	-0.12	-0.11	-0.12	-0.02	0.25
Consolidated net income	3.49	3.40	3.27	3.64	4.03
Less net income attributable to no controlling interest	-0.26	-0.04	0.04	-0.13	-0.14
Consolidated net income attributable to War-mart	3.24	3.36	3.30	3.51	3.89

From the table we can also see, that although the total costs are stable, there are some slight trends, which differs for costs of sale and management cost. While the management costs are increasing the costs of sale are decreasing. However in total they are stable. This is really good, because it can be concluded, that EAT is very stable (actually there is slight increase from 3.61% to 3.78%).

Chart 4.1: Vertical common-size analysis of Income Statements (values are in %)



From the Chart 4.1, we can see some fluctuations in the cost of sales in five years. The largest proportion among 2007 to 2009 and the trends of cost of sales are declining. However, the selling expenses and administrative expenses improved.

Vertical common-size analysis of balance sheet, prepared by dividing each item on the balance sheet by the same period's total assets and expressing the results as percentages, highlights the composition of the balance sheet.

Table 4.2: Vertical common-size analysis of Assets (values are in %)

items	**2007**	**2008**	**2009**	**2010**	**2011**
Cash and cash equivalents	4.88	3.41	4.45	4.63	4.09
Receivables, net	1.88	2.23	2.39	2.43	2.82
Inventories	22.28	21.51	21.12	19.43	20.10
Prepaid expenses and other	1.78	1.95	1.99	1.83	1.71
Total current assets	30.81	29.10	29.95	28.31	28.72
Land, Buildings and improvements	54.67	56.52	57.31	58.61	57.25
Fixtures and equipment	16.65	17.14	18.27	20.77	23.55
Transportation equipment	1.30	1.35	1.41	1.38	1.44
Property and equipment, gross	72.62	75.01	76.99	80.75	82.24
Less accumulated depreciation	-16.14	-17.60	-20.17	-22.44	-24.07
Property and equipment, net	56.48	57.41	56.82	58.31	58.17
Property under capital lease, gross	3.57	3.51	3.27	3.32	3.27
Less accumulated amortization	-1.55	-1.59	-1.56	-1.70	-1.73
Property under capital lease, net	2.02	1.92	1.71	1.62	1.54
Goodwill	9.10	9.83	9.34	9.45	9.28
Other assets and deferred charges	1.59	1.74	2.18	2.31	2.29
Total long-term assets	69.19	70.90	70.05	71.69	71.28
Total assets	100.00	100.00	100.00	100.00	100.00

In the Table 4.2, we can find out the percentage of total current assets in the total assets have decreased 2.09 during the selected period. On the other hand, the total long-term assets have increased by 2.09 percent from 2007 to 2011. So we know that current assets decrease than long-term assets increase by the same value.

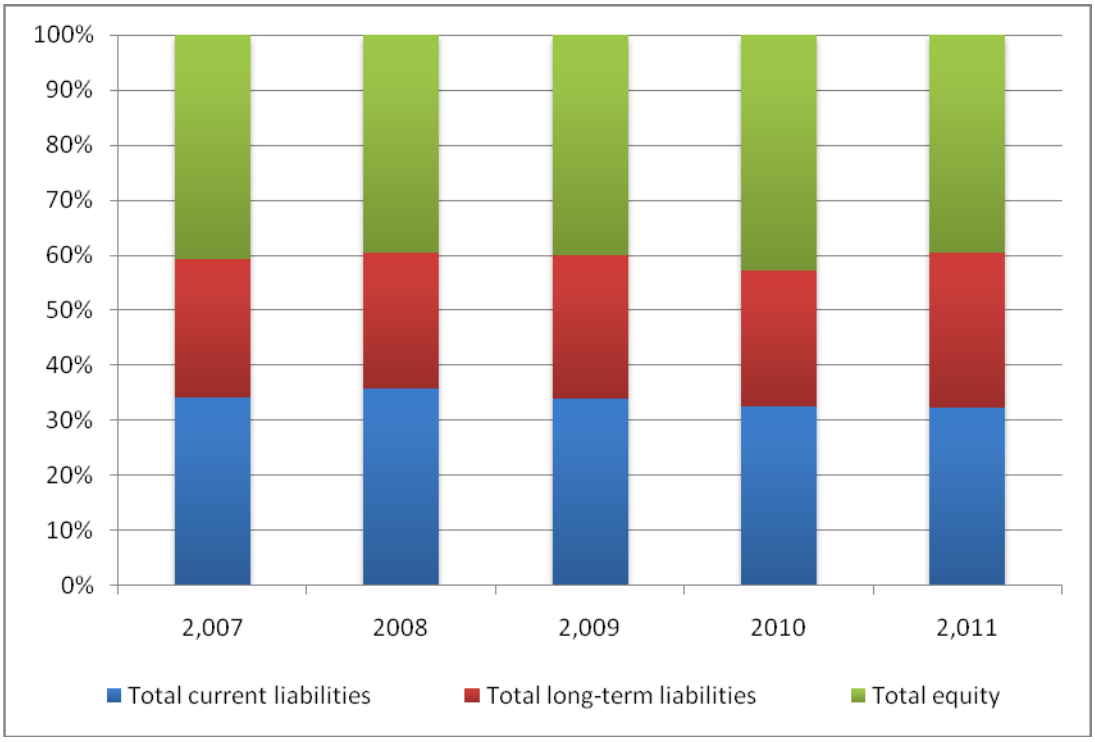
Table 4.3: Vertical common-size analysis of Liabilities and equity (values are in %)

items	2,007	2008	2,009	2010	2,011
Commercial paper	1.70	3.08	0.92	0.31	0.57
Accounts payable	18.58	18.57	17.65	17.84	18.57
Accrued liabilities and income taxes	10.17	10.28	11.50	11.77	10.44
Long-term debt due within one year	3.59	3.62	3.58	2.37	2.58
Obligations under capital leases due within one year and other	0.19	0.19	0.24	0.26	0.21
Total current liabilities	34.23	35.75	33.89	32.55	32.37
Long-term debt and obligations under capital leases	20.33	20.43	21.14	21.32	24.27
Deferred income taxes and other	4.72	4.31	5.02	3.41	3.92
Total long-term liabilities	25.04	24.74	26.16	24.73	28.19
Common stock	0.27	0.24	0.24	0.22	0.19
Capital in excess of par value	1.87	1.85	2.40	2.23	1.98
Retained earnings	36.92	35.05	38.95	39.04	35.41
Accumulated other comprehensive income (loss)	1.66	2.36	-1.64	-0.04	0.36
Total Wal-Mart shareholders' equity, gross	40.72	39.51	39.95	41.44	37.94
Non-controlling interest	0.00	0.00	0.00	1.28	1.50
Total equity	40.72	39.51	39.95	42.72	39.44
Total liabilities and equity	100.00	100.00	100.00	100.00	100.00

According to Table 4.3, we can find that the total current liabilities augment from 2007 to 2008, but fell off after that. The total long-term liabilities have the opposite situation in the same year. In the year of 2008 and 2011, the total equity has cut down, but raise in the rest of selected years.

From the Chart 4.2, we can see that total current liabilities have obvious increased in 2008 and the total long-term liabilities went up a lot in 2011. As the graph shows, the value of total equity of Wal-Mart Store is biggest in 2010 during the selected period; there is a big decreasing of total long-term liabilities in the same year. Combined these items, we can find that the total liabilities have more proportion in the total liabilities and equity; it means the total liabilities have more effect to the total liabilities and equity. So the company should focus on the total liabilities.

Chart 4.2: Vertical common-size analysis of Balance of Sheets (Liabilities and equity) (values are in %)



4.1.2 Horizontal common-size analysis

Horizontal common-size analysis of income statements and balance sheets is prepared by computing the increase or decrease in percentage terms of each item compared to the basic year. In this part, we used 2007 as the basic year, and we analyze the change of items of the next four years relative to the basic.

We can apply horizontal common size analysis to give us additional information about trends. In Table 4.4 we display the trends of the of income statements of Wal-Mart, using horizontal analysis with 2007 as the base. We can see several trends to appear: The revenues have increased by 20.99% in five years. The cost of sales has increased a little slower than revenue in the selected year; so as the operating, selling, general and administrative expenses but increased faster than revenues. As the Income from continuing operations before income taxes has increased by 24.09% in these five years which has creased slower than Consolidated net income attributable to War-mart, it means the company has a better tax effect in the during years.

Table 4.4: Horizontal common-size analysis of Income Statements (values are in %)

items	2008	2009	2010	2011
Revenues	108.65	116.34	117.08	120.99
Cost of sales	108.47	115.90	115.33	119.36
Operating, Selling, General and Administrative expenses	109.82	119.77	124.38	126.59
EBIT	107.31	111.23	116.85	124.61
Interest, net	117.59	124.26	123.22	131.07
EBT	106.48	110.18	116.33	124.09
Taxes, net	108.53	112.25	112.16	119.07
EAT	105.45	109.12	118.44	126.63
Income (loss) from discontinued operations, net of tax	95.53	117.41	18.59	-243.29
Consolidated net income	105.80	108.84	121.92	139.54
Less consolidated net income attributable to no controlling interest	17.11	-16.33	57.38	67.56
Consolidated net income attributable to War-mart	112.82	118.75	127.04	145.24

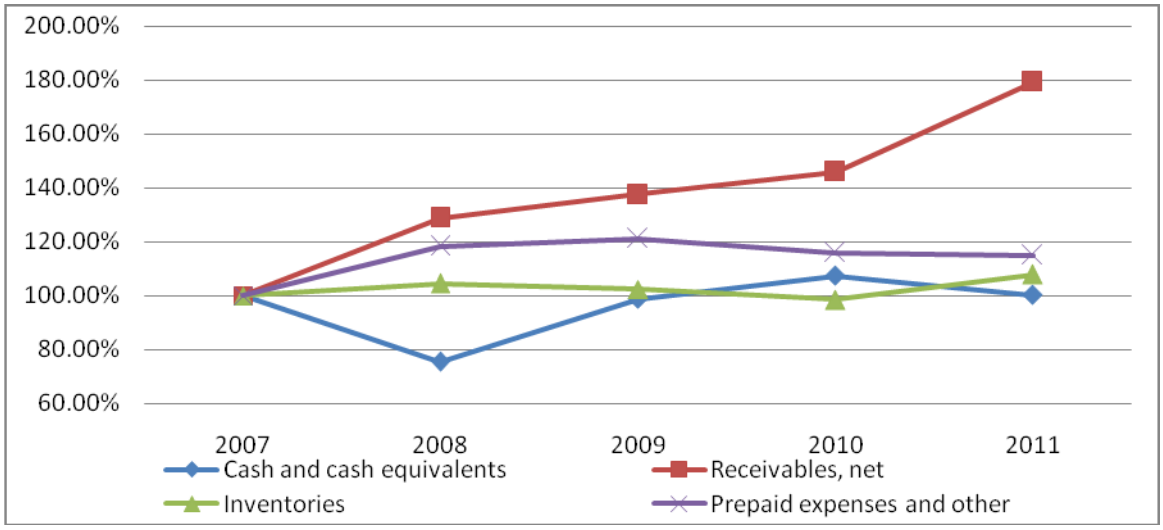
Table 4.5 shows horizontal common-size analysis the assets of Balance Sheets of Wal-Mart. we can find that the cash and cash equivalents lessen in 2008 and 2009, after that they are firm up.

Table 4.5: Horizontal common-size analysis of Assets (values are in %)

items	2008	2009	2010	2011
Cash and cash equivalents	75.53	98.67	107.24	100.30
Receivables, net	128.66	137.50	145.92	179.19
Inventories	104.44	102.45	98.44	107.82
Prepaid expenses and other	118.29	121.12	115.99	114.91
Total current assets	102.14	105.07	103.74	111.39
Land, Buildings and improvements	111.79	113.30	121.02	125.13
Fixtures and equipment	111.36	118.61	140.85	169.07
Transportation equipment	112.41	117.34	119.79	131.99
Property and equipment, gross	111.70	114.59	125.55	135.32
Less accumulated depreciation	117.88	135.05	156.93	178.16
Property and equipment, net	109.94	108.74	116.58	123.08
Property under capital lease, gross	106.38	99.05	105.14	109.51
Less accumulated amortization	110.76	108.63	124.08	133.43
Property under capital lease, net	103.02	91.70	90.59	91.15
Goodwill	116.80	110.91	117.20	121.83
Other assets and deferred charges	118.08	148.25	163.84	171.61
Total long-term assets	110.83	109.44	116.99	123.10
Total assets	108.15	108.09	112.91	119.49

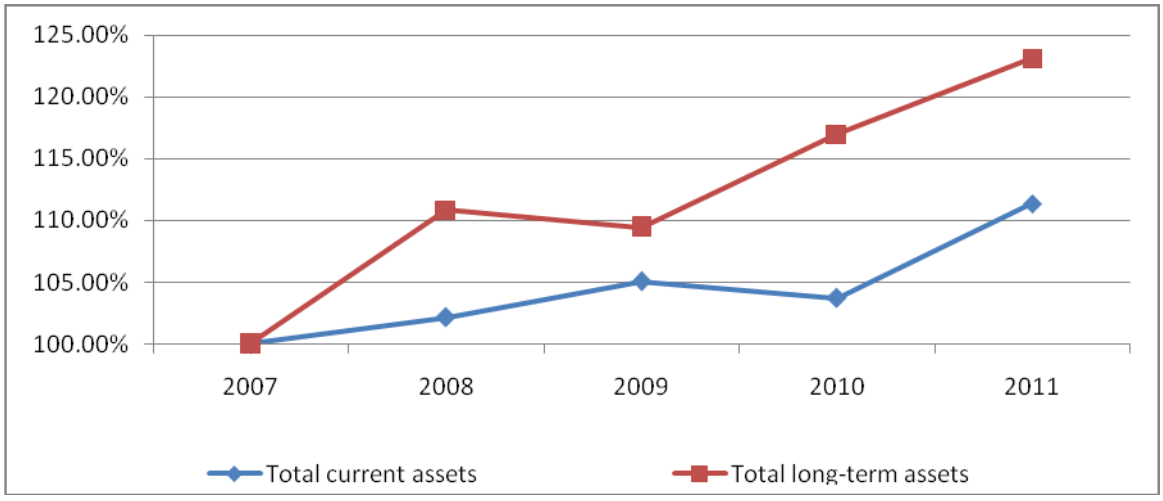
From the table we can also see that goodwill increased every year, most likely from an acquisition, continued investment in property, plant, and equipment. The total current assets and the total long-term assets all raise a lot during these five years; by the way, the long-term assets grow up faster than the current assets. Finally, the total assets have increased by 19.49%.

Chart 4.3: Horizontal common-size analysis of Current Assets (values are in %)



In the Chart 4.3, we can find the trends of each items of total current assets. As we see, the inventories and prepaid expenses and other have similar trends, they are increased from 2007 to 2008; decreased from 2008 to 2010 and went up again in 2011, which because of the Wal-Mart Store Company become better this year.

Chart 4.4: Horizontal common-size analysis of Current Assets and Long--term Assets (values are in %)



In the Chart 4.4, it is clear that we can find the total current assets and the long-term assets has increased from 2007 to 2011. In 2011, the total current assets and long-term asssets have the same trends and increased a lot, which means the company earning a lot this year.

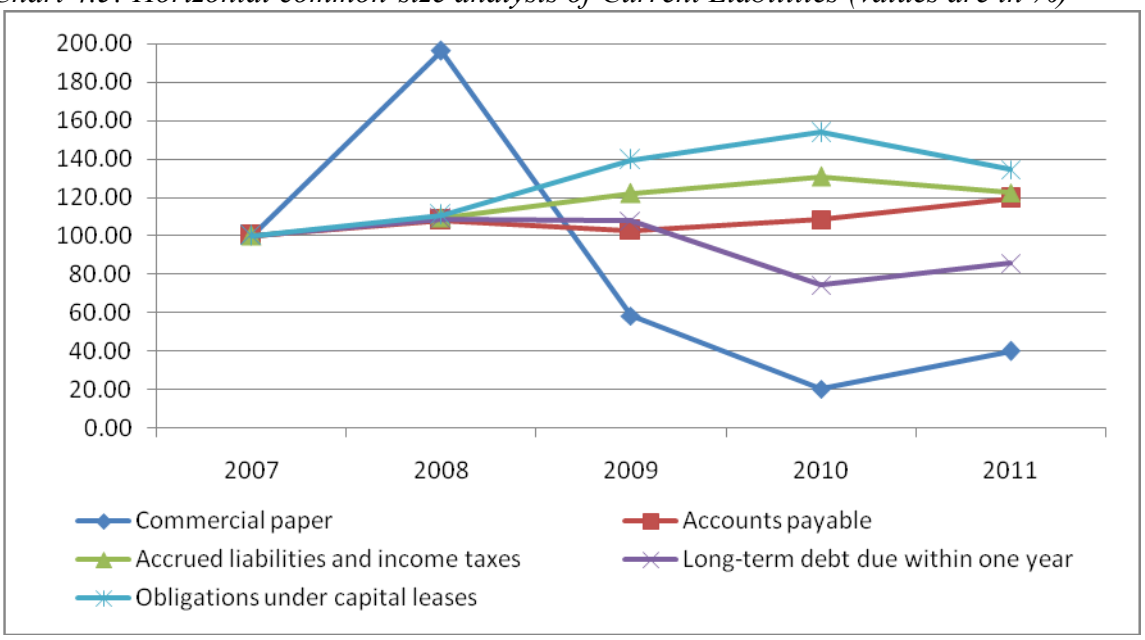
Table 4.6: Horizontal common-size analysis of Liabilities and equity (values are in %)

items	**2008**	**2,009**	**2010**	**2,011**
Commercial paper	196.11	58.60	20.35	40.12
Accounts payable	108.12	102.70	108.41	119.46
Accrued liabilities and income taxes	109.32	122.16	130.67	122.61
Long-term debt due within one year	108.94	107.74	74.61	85.76
Obligations under capital leases due within one year and other	110.88	139.65	153.68	134.39
Total current liabilities	112.95	107.03	107.36	113.00
Long-term debt and obligations under capital leases	108.68	112.41	118.44	142.65
Deferred income taxes and other	98.86	115.06	81.55	99.43
Total long-term liabilities	106.83	112.91	111.49	134.51
Common stock	96.13	95.16	91.53	85.23
Capital in excess of par value	106.85	138.32	134.19	126.22
Retained earnings	102.69	114.05	119.38	114.60
Accumulated other comprehensive income (loss)	154.07	-107.18	-2.79	25.76
Total Wal-Mart shareholders' equity, gross	104.93	106.03	114.90	111.32
Non-controlling interest	-	-	-	-
Total equity	104.93	106.03	118.44	115.71
Total liabilities and equity	108.15	108.09	112.91	119.49

According to the Table 4.6, we can find the changes of liabilities and equity of balance sheets of company. There are several trends to appear: Total current liabilities are increased during five years, this situation is similar with total liabilities and equity; long-term debt due within one year augmented from 2008 to 2009. There is something special in 2010 and 2011, which has decreased debt because the highest equity, it means the company have good operation and make economic growth in these years. Combination the data of total liabilities and total liabilities equity, we can find the liabilities have more effect on the total liabilities and equity, which means this item have occupied more position in the company.

In the Chart 4.5, we can see the situation about compared the value of each current liabilities's items with the basic value in 2007. It is clear that the commercial paper has changed a lot (but it is small in absolute value).

Chart 4.5: Horizontal common-size analysis of Current Liabilities (values are in %)



From this chart,we also can find that other items has the same trends from 2007 to 2008, which is increase. In 2010,the long-term debt due within one year has decreased, which means the company have good profitability and can afford their debt (the company is able to pay it out).

4.2 Financial ratio analysis

A ratio is a mathematical relation between one quantity and another. Financial ratio analysis utilizes financial accounting and other information to assess a company's financial performance and financial condition. Hundreds of ratios can be formed using available financial data. In this part, there are four kinds of ratios that will be used to analyze the financial performance of Wal-Mart, including activity ratios, liquidity ratios, solvency ratios and profitability ratios.

All the financial ratios presented in this chapter are computed according to formulas described in the second chapter based on financial data obtained from the company's annual reports (see the annexes 1-3).

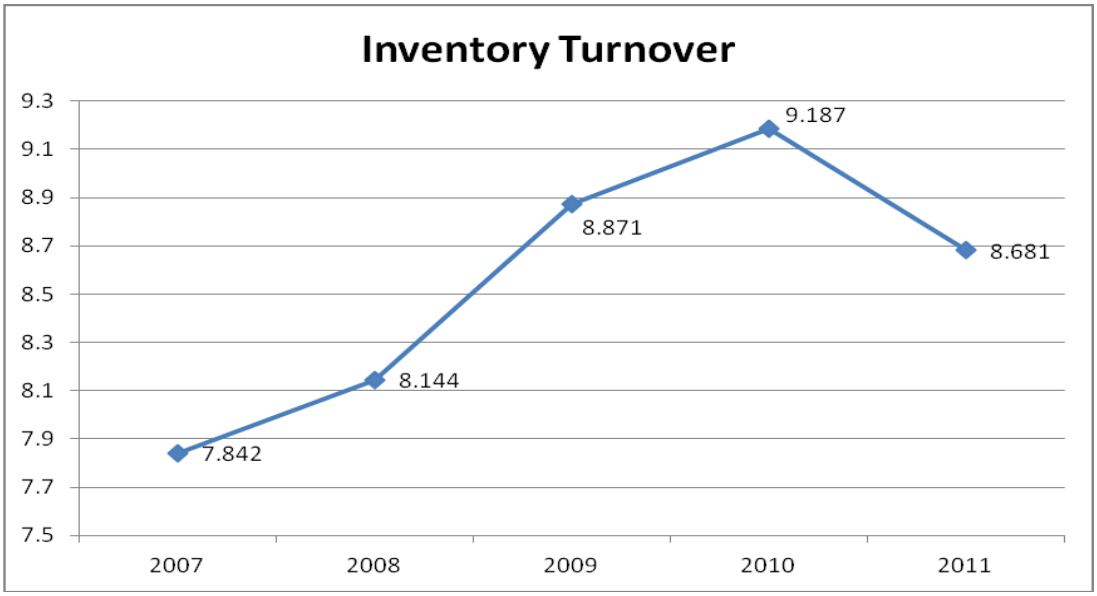
4.2.1 Activity ratios analysis

Activity ratios were described in the chapter 2.1. They are commonly used to evaluate a company's effectiveness in putting its asset investment to good use. The following ratios are assumed: inventory turnover, receivable turnover, payable turnover and so on.

a) Inventory Turnover

Inventory turnover is used to measure the inventory management efficiency of a business of the company. This ratio is calculated based on formula (2.3). Values in years 2007-2011 are depicted in chart 4.6.

Chart 4.6: Inventory Turnover



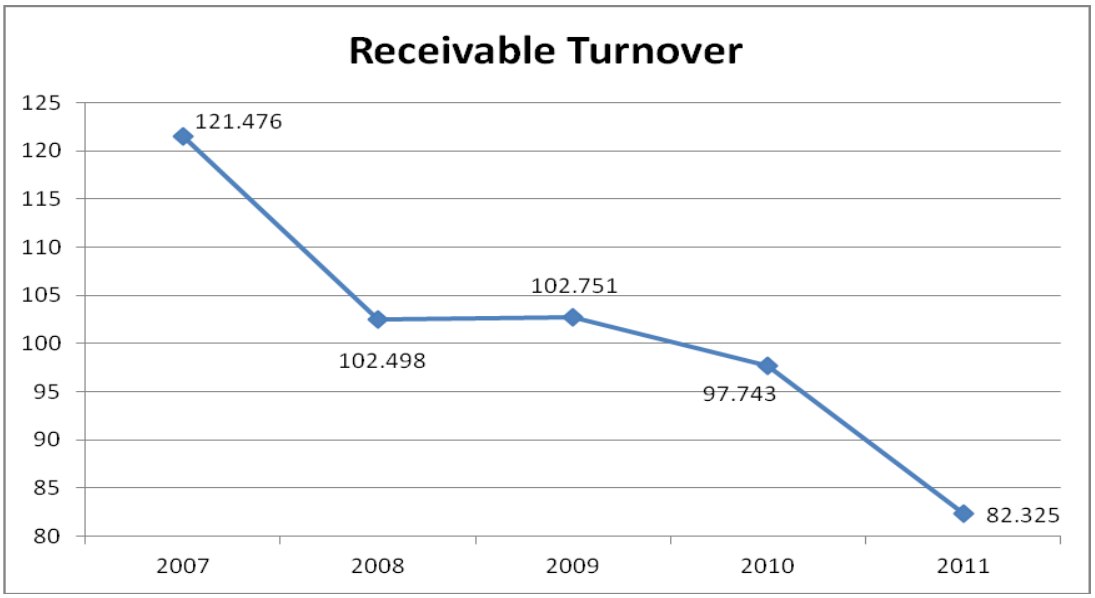
From Chart 4.6, we can see that the inventory turnover of Wal-Mart keep going up between 2007 and 2010, but in 2011 is decreased. So we find that inventory turnover is highest in 2010. Although the decrease in 2011 its value (8.681) is still very good and it means that the company does not experience any problems with the inventory.

b) Receivable Turnover

Accounts receivable turnover measures the efficiency of a business in collecting its

credit sales. It is calculated based on formula (2.4) and the values are shown in graph 4.7.

Chart 4.7: Receivable Turnover



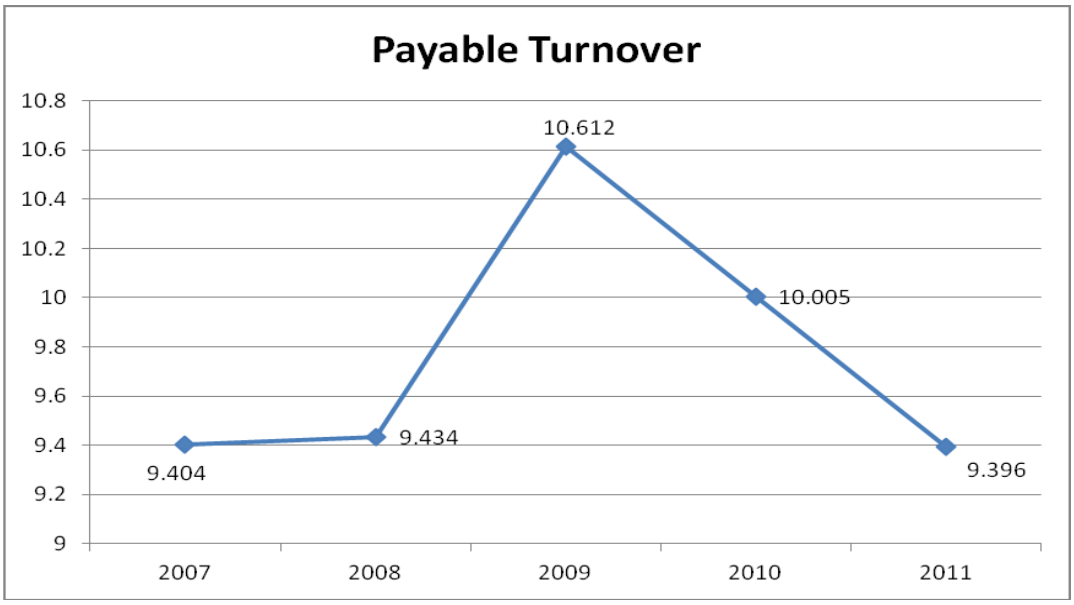
In the Chart 4.7 we can see that there is a downward trend of the receivable turnover during these years (except for year 2009). It means Wal-Mart has a worse operating capacity and slower recovery of receivables. In 2009 increase in accounts receivable turnover overtime indicates the company may improve in the process of cash collection from sales. Anyway the values of the ratio are excellent so there is no problem even although the trend is decreasing.

c) Payable Turnover

Accounts payable turnover is a measure of short-term liquidity. This ratio is calculated based on formula (2.5). The values can be seen in the Chart 4.8.

According to the Chart 4.8, we can find out this ratio is varying among 9.40 in three of these years, but there is a special year is 2009, which has the highest level because of the lower accounts payable (also the sales in that year increased). It means that the company's business was able to repay its suppliers quickly in that year. Thus higher value of accounts payable turnover is favorable.

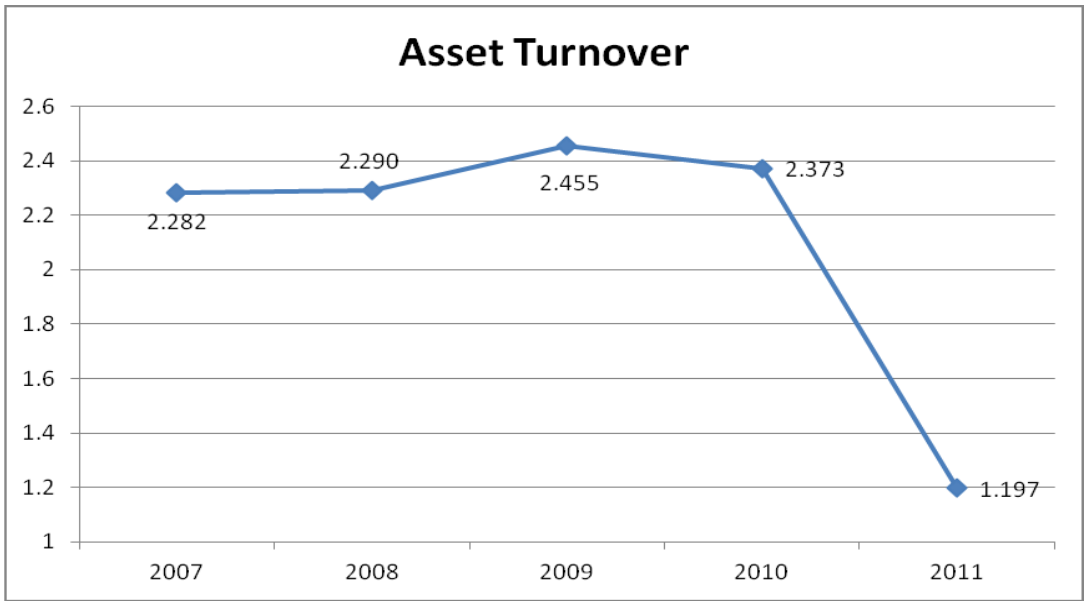
Chart 4.8: Payable Turnover



d) Asset Turnover

Asset Turnover is calculated based on formula (2.6) and the values are shown in Chart 4.9.

Chart 4.9: Asset Turnover



The Chart 4.9 describes that the asset turnover of Wal-Mart changed only a little from 2007 to 2010, but in 2011 there is relatively high decrease. This decrease in last year is caused

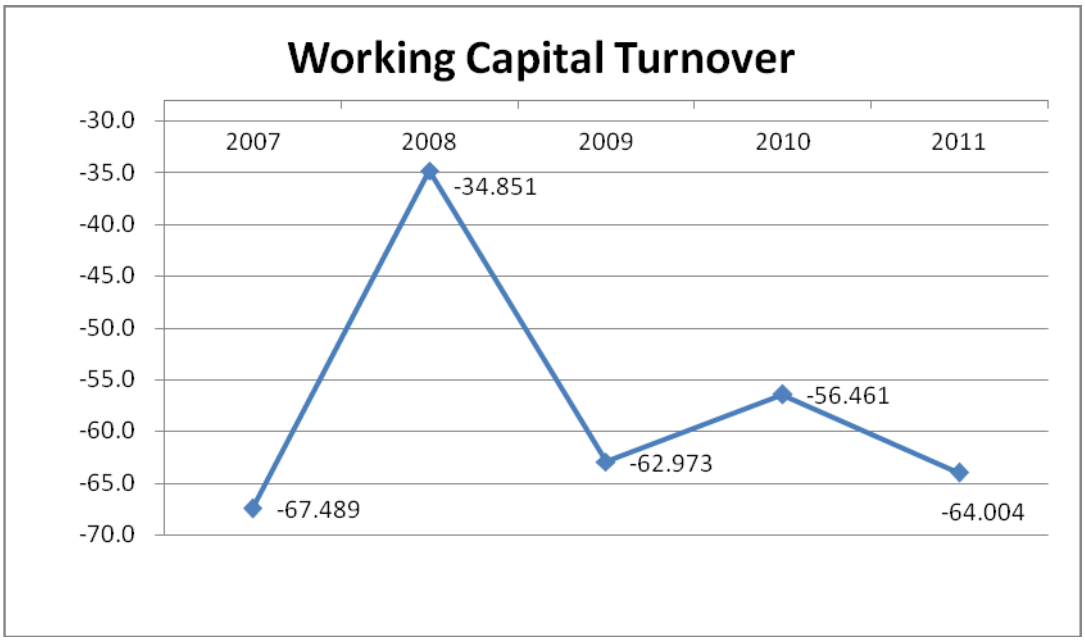
by the augment of total assets. There is an obvious lessens in 2011, which means that the company is not using its assets optimally in that year.

e) Working Capital Turnover

Working Capital Turnover provides some useful information as to how effectively a company is using its working capital to generate sales. It is calculated based on formula (2.7). The values are depicted in the Chart 4.10.

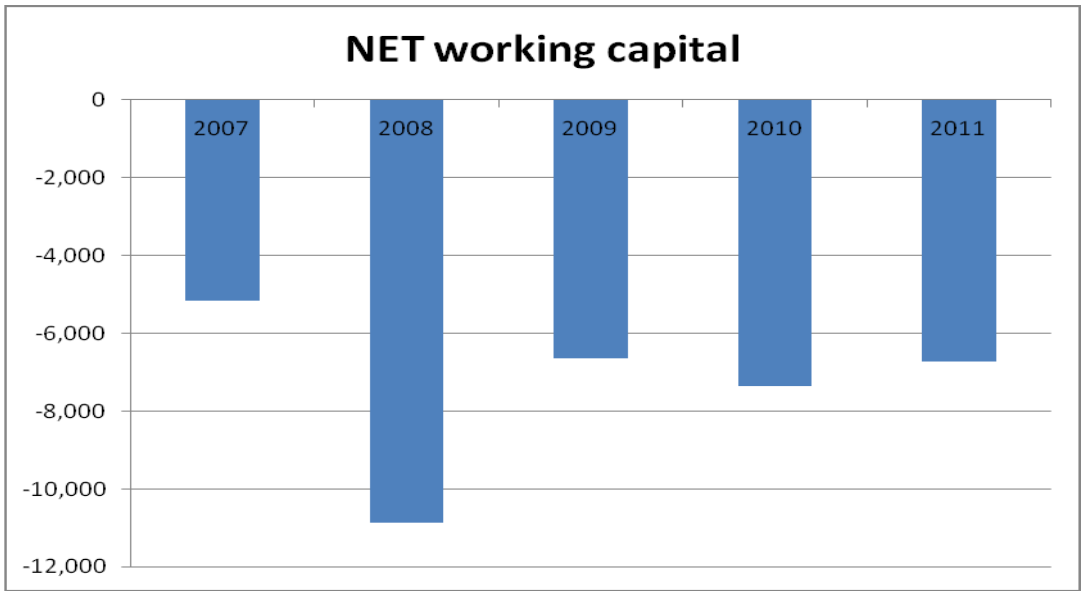
In Chart 4.10 we can find whether the company is effectively using its working capital to generate sales or not. Unfortunately, in the Wal-Mart's company the current assets are a smaller amount than the current liabilities, so this means that the net working capital is negative (see the Chart 4.11).

Chart 4.10: Working Capital Turnover



Businesses use net working capital to measure cash flow and the ability to service debts. The negative working capital means that the business may not be able to pay off its current liabilities when due. This is definitely not good, but the Wal-Mart company financials are strong in all other areas, so there is little influence about this to company.

Chart 4.11: Net Working Capital



f) Inventory Conversion Period

Inventory conversion period is very similar to inventory turnover ratio and both measure the efficiency of a business in managing its inventory. It is calculated based on formula (2.8) and the values are shown in Table 4.6.

Table 4.6: Inventory Conversion Period

item	2007	2008	2009	2010	2011
Inventory Conversion Period	47	45	41	40	42

From the Table 4.6, we can see that the inventory of Wal-Mart is holding around 40 days in average before it is sold, it is really efficient. Thus inventory must be kept at safe level so that no sales are lost due to stock-outs.

g) Average Collection Period

Average Collection Period is an activity ratio and gives information about the efficiency of sales collection activities. It is calculated based on formula (2.9). The values can be seen in Table 4.7.

In the Table 4.7, we can see the most of average collection period of Wal-Mart is less than 4 days. Since it is profitable to convert sales into cash quickly, it means that a lower

value of Days Sales Outstanding is favorable whereas a higher value is unfavorable. So we can find the liquidity of assets of the company is good.

Table 4.7: Average Collection Period

item	2007	2008	2009	2010	2011
Average Collection Period	3	4	4	4	4

h) Average Payment Period

Average Payment Period is calculated based on formula (2.10). The Values are depicted in the Table 4.8.

Table 4.8: Average Payment Period

year	2007	2008	2009	2010	2011
Average Payment Period	39	39	34	36	39

According to the Table 4.8, we can find out the average payment period has decreased from 39 in 2007 to 34 in 2009, which indicates the company has a better situation in its payment. In addition, the ratio has firm up after 2009, so it reduces the abilities of Wal-Mart to pay back debt services in those years.

4.2.2 Liquidity ratios analysis

Liquidity ratios were described in the chapter 2.2. They measure the company's ability to meet its short-term obligations. In all liquidity ratios the comparison between the value of the current liabilities (which should be paid in a short time) and liquid assets is made. The ratios differ in the point of view what is liquid assets. The following ratios are assumed: current ratio, quick ratio and cash ratio.

a) Current Ratio

Current ratio matches current assets with current liabilities and tells us whether the current assets are enough to settle current liabilities. It is calculated based on formula (2.12). The values can be seen in Table 4.9.

Table 4.9: Current Ratio

year	2007	2008	2009	2010	2011
Current Ratio	0.900	0.814	0.884	0.870	0.887

Table 4.9 shows that these ratios are all below 1. This shows critical liquidity problems of Wal-Mart, because it means that total current liabilities exceed total current asset. But the ratio lower 1 is not a bad sign for all of industries; it depends on the industry and also the particular company. The goods with rapid turnover is because the activity ratios are so big, that means the company don't have much inventory. So the current ratio is low in these years.

b) Quick Ratio

This ratio shows the company's ability of paying for the short-term debt. Quick Ratio is calculated based on formula (2.13) and the values are depicted in the Table 4.10.

Table 4.10: Quick Ratio

year	2007	2008	2009	2010	2011
Quick Ratio	0.197	0.158	0.202	0.217	0.213

From Table 4.10, we can see this ratio of Wal-Mart is below 1 for all the years, which indicates that a business would not be able to repay all its debts by using its most liquid assets.

c) Cash Ratio

Cash Ratio measures the ability of a business to repay its current liabilities by only using its cash and cash equivalents. It is calculated based on formula (2.14). The values are shown in Table 4.11.

Table 4.11: Cash Ratio

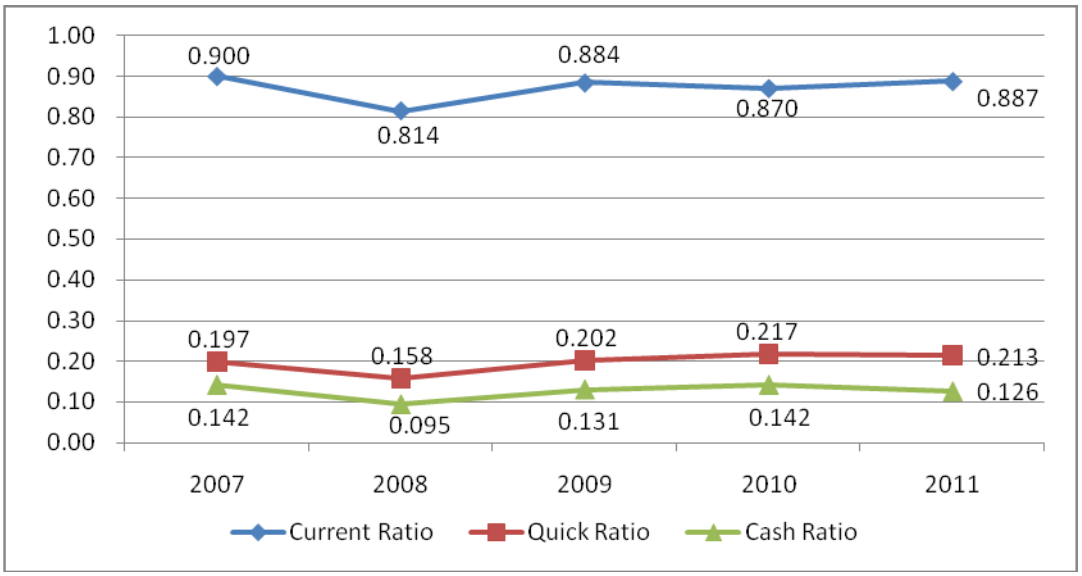
year	2007	2008	2009	2010	2011
Cash Ratio	0.142	0.095	0.131	0.142	0.126

In the table 4.11, we can see that these cash ratios in the selected years are around 0.1, which means that Wal-Mart has abilities to pay the current liabilities as other normal company.

d) General comparison of liquidity ratios

According to the Chart 4.12, we can find that the utilized liquidity rations are stable; it shows the company has the ability to repay the short-term debt.

Chart 4.12: Liquidity ratios of Wal-Mart Store Company



4.2.3 Solvency ratios analysis

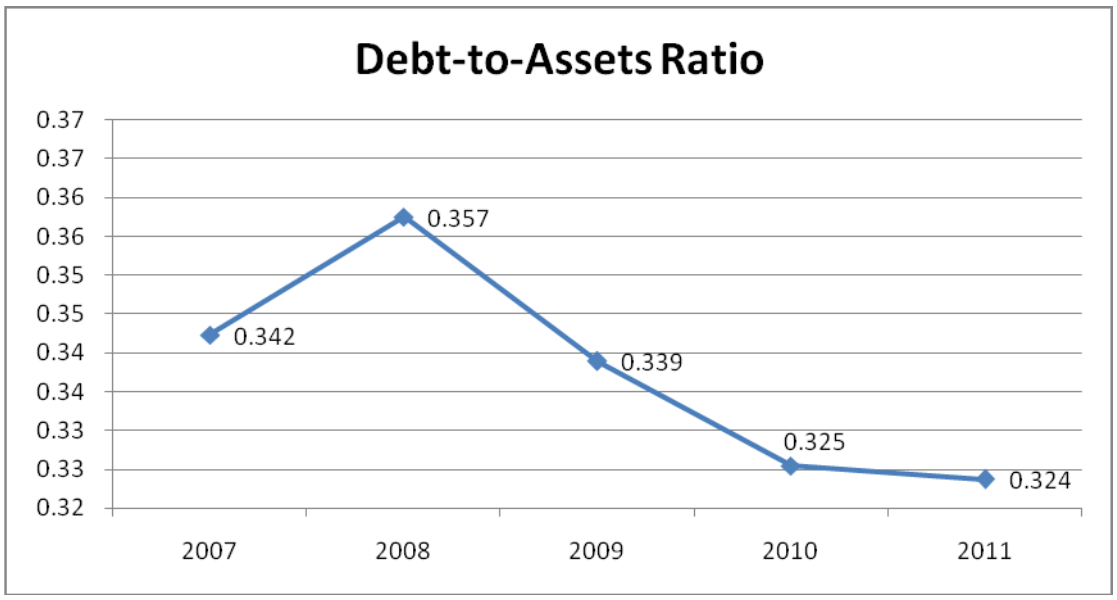
Solvency ratios can be used to gauge a company's ability to meets its debt obligations.

a) Debt-to-Assets Ratio

Debt-to-Assets ratio measures the portion of the assets of a business which are financed through debt. It is calculated based on formula (2.16) and the values can be seen in Chart 4.13.

According to the Chart 4.13, we can find out the ratio of the company is going down from 2008 to 2011 and these ratios are al less than 0.4 during the period, Lower value of debt ratio is favorable, it indicates that Wal-Mart has strong abilities of solvency, creditors got protection and les risk. Moreover, there is a significant decline in 2011, because of the total assets has increased. But on the other hand the company can utilize the debt for financing as it is cheaper than the equity.

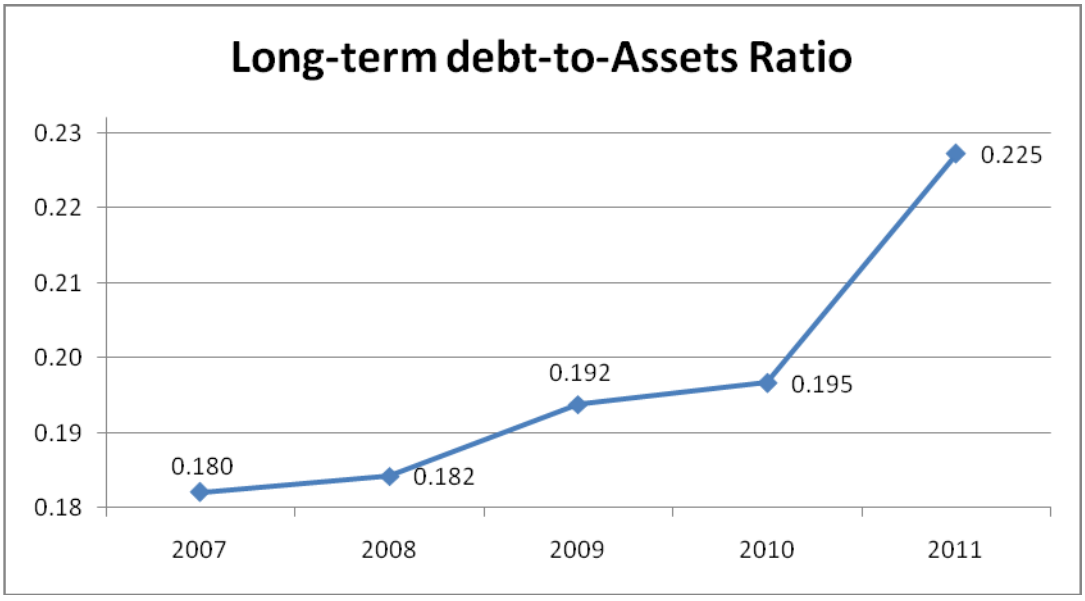
Chart 4.13: Debt-to-Assets Ratio



b) Long-term debt-to-Assets Ratio

Long-term debt to asset ratio is the ratio that represents the financial position of the company and the company's ability to meet all its financial requirements. It is calculated based on formula (2.17). The values are depicted in the Chart 4.14.

Chart 4.14: Long-term debt-to-Assets Ratio

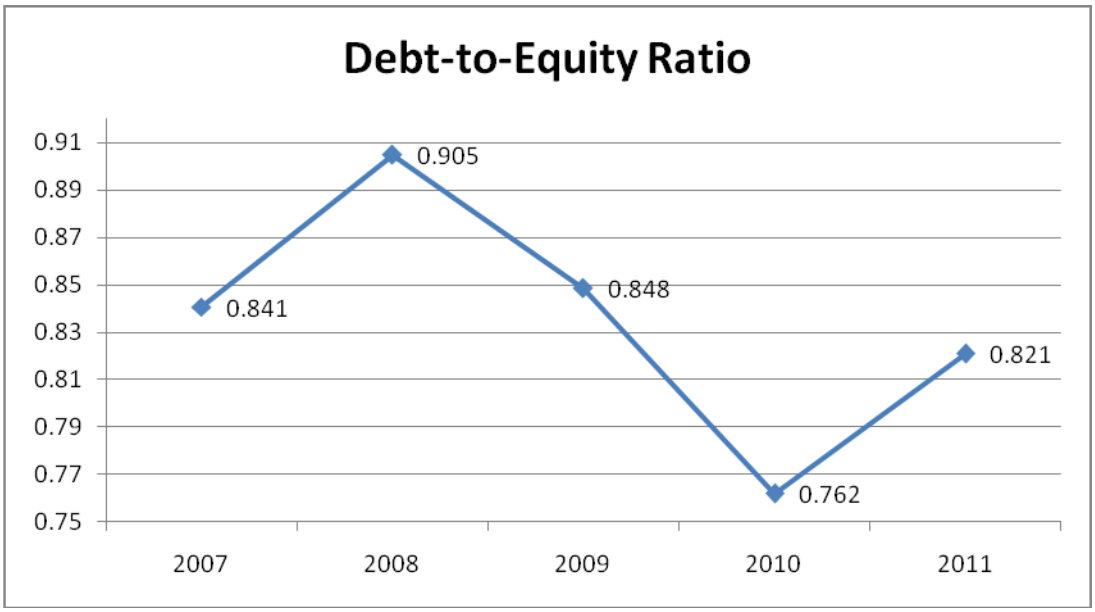


The Chart 4.14 describes the result of the Long-term debt-to-Assets Ratio. The ratio goes up year by year, especially in 2011, the reason is the increased of long-term debt.

c) Debt-to-Equity Ratio

The debt-to-equity ratio is a financial metric used to assess a company's capital structure. It is calculated based on formula (2.18). The values are shown in Chart 4.15.

Chart 4.15: Debt-to-Equity Ratio



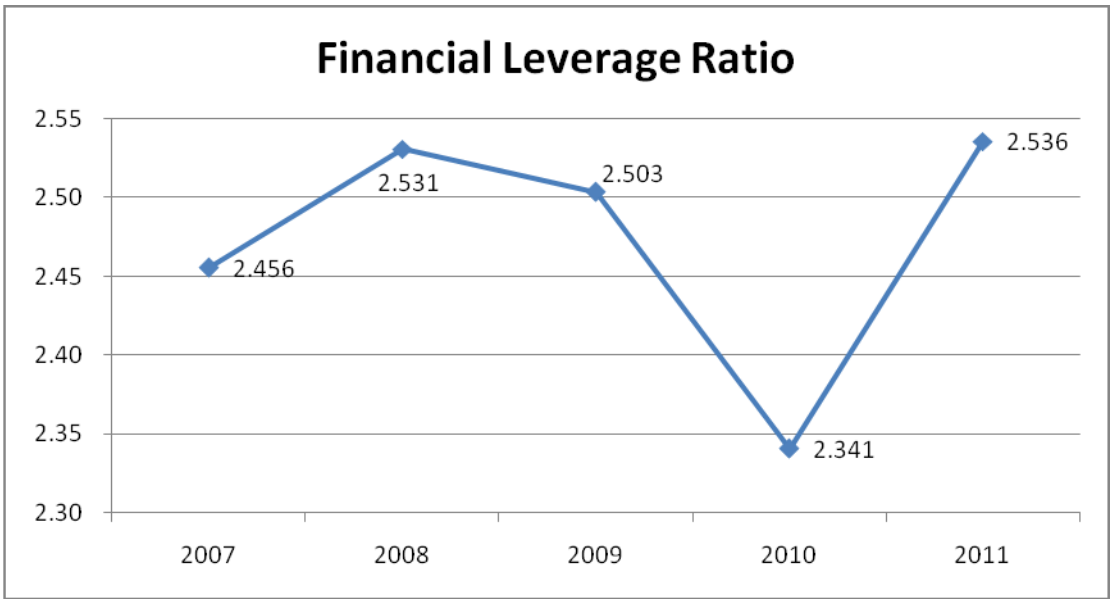
The Chart 4.15 show the ratio is stable around 0.83 in 2007, 2009 and 2011. The highest result in 2009 which indicate that the business is operating at a higher risk, especially at times of higher interest rates; it is an unfavorable for the company. In 2010, there is a lowest value of debt-to-equity ratio. This is favorable and it indicates less risk, because total equity is higher in this year.

d) Financial Leverage Ratio

The debt-to-asset ratio is the percentage of total debt financing the firm uses to firm's total assets. It helps to see how much of the assets are financed using debt financing. It is calculated based on formula (2.19). The values can be seen in Chart 4.16.

From the Chart 4.16, we can clearly see that the financial leverage has increased by 19.5 percent points during the period 2010 to 2011; this was because the company increased its total assets so much in that year. From 2007 to 2010, the ratios were stable around 2.50.

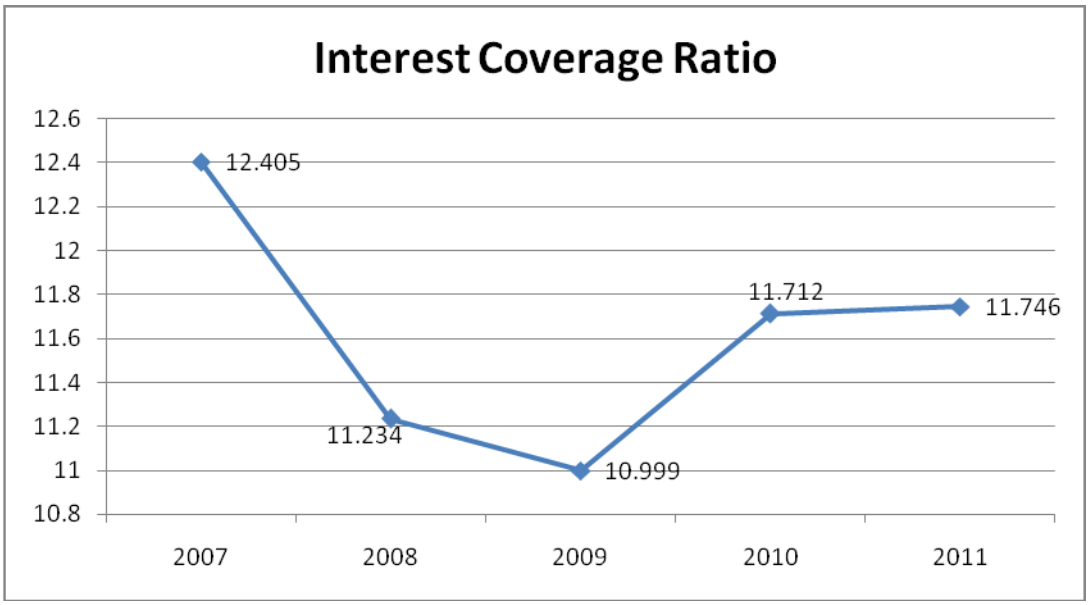
Chart 4.16: Financial Leverage Ratio



e) Interest Coverage Ratio

The interest coverage ratio is a measurement of the number of times a company could make the interest payments higher and still be able to pay them out with its earnings before interest and taxes, also known as EBIT. It is calculated based on formula (2.20) and the values are depicted in the 4.17.

Chart 4.17: Interest Coverage Ratio

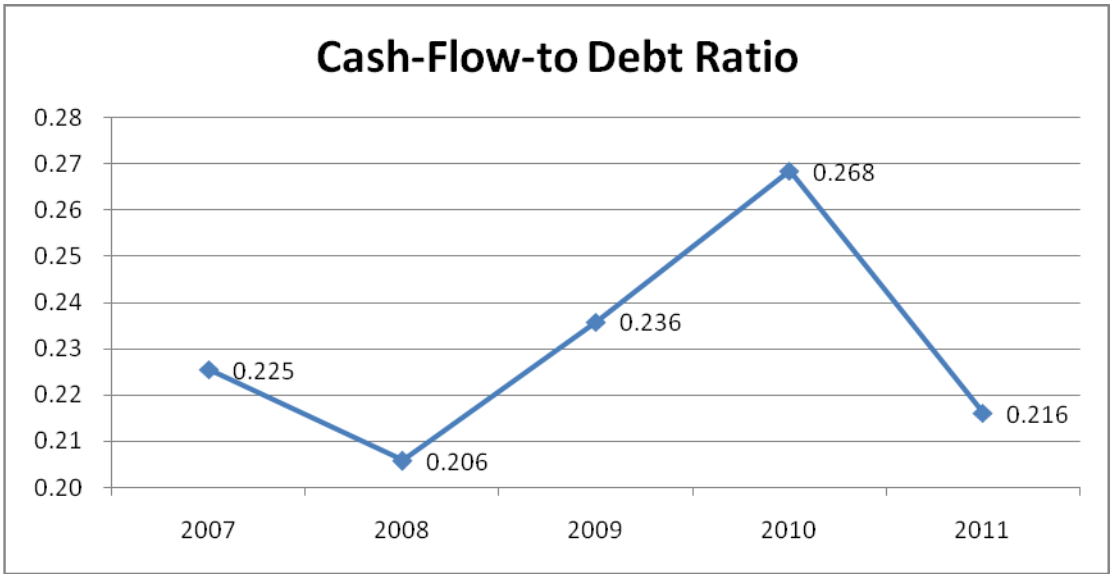


In Chart 4.17, we can find that the ratio decreased from 2007 to 2009 and become lowest. The lower the interest coverage ratio, the higher the company's debt burden the earnings and the greater the possibility of bankruptcy or default. In 2010, the interest paid went up as the debt of company increased. But on the other hand the earnings went up even more in that year.

f) Cash-Flow-to Debt Ratio

This coverage ratio compares a company's operating cash flow to its total debt. Cash-Flow-to Debt Ratio is calculated based on formula (2.21). The values are shown in Chart 4.18.

Chart 4.18: Cash-Flow-to Debt Ratio



According to the Chart 4.18, we will find out the ratio is decreasing between 2007 and 2008. After that, there is an obvious increase of the company from 2008 to 2010. It is usually a positive sign, showing the company is in a less risky financial position and better able to pay its debt load. But in 2011, it reduced again.

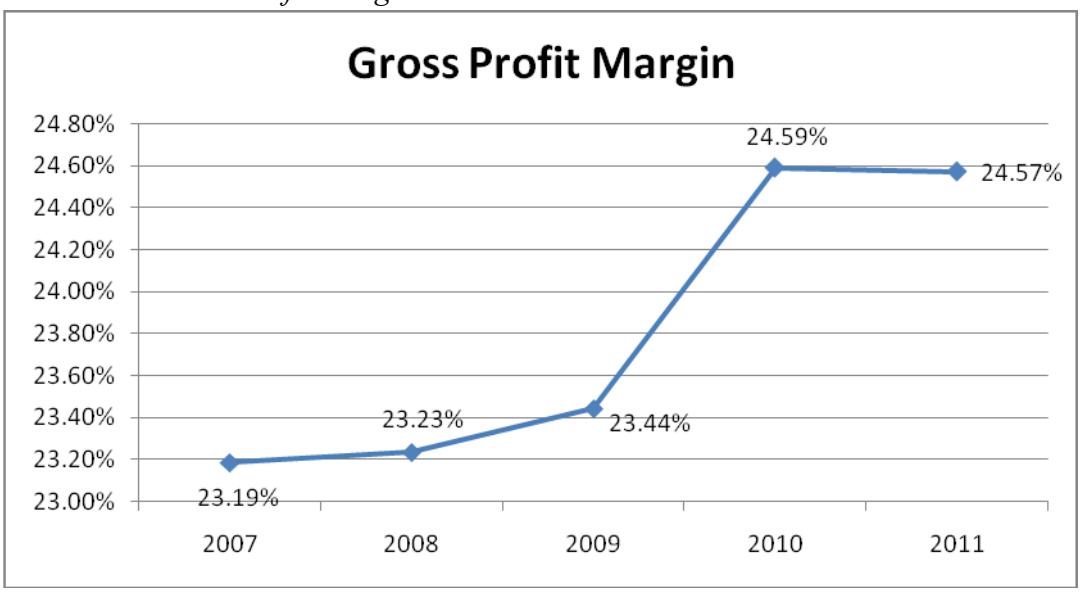
4.2.4 Profitability ratios analysis

Profitability ratios can be used to analyze a company's ability to manage its expenses to generate profits from its sales.

a) Gross Profit Margin

Gross margin ratio measures profitability. It is calculated based on formula (2.22). The values can be seen in Chart 4.19.

Chart 4.19: Gross Profit Margin



The Chart 4.19 describe that the ratio of Wal-Mart is increasing year by year, except 2011. It is favorable because more profit will be available to cover non-production costs. Lower profit margin means that the business generates a low level of revenue to pay for operating expenses and net profit. In 2007, the ratio is very low. The reasons for this can be either that the business is unable to control production and inventory costs, or that prices are set too low.

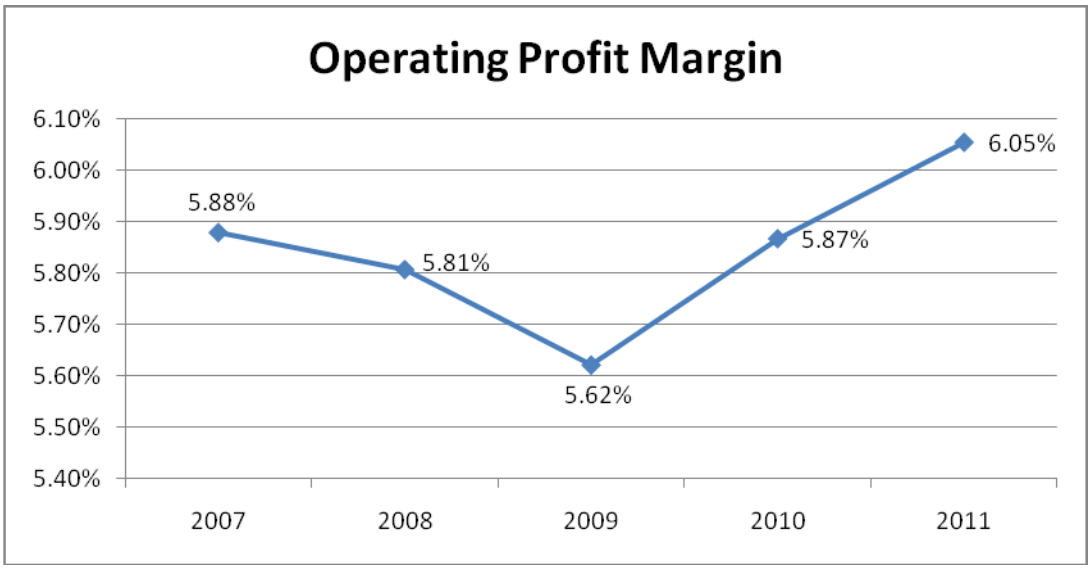
b) Operating Profit Margin

Operating margin is used to measure company's pricing strategy and operating efficiency, reflecting the ability of creating operating profit. It is calculated based on formula (2.23) and the values are depicted in the Chart 4.20.

The Chart 4.20 show that the ratios are around 0.05. But 2009 is a special year, which year has the smallest value of the ratio. In general, a business which is more efficient is controlling its overall costs will have higher operating margin ratio. I think perhaps that is

because of the crisis which happened in that year. From 2009 to 2011, the ratio is keep going up which means that the profitability is improving.

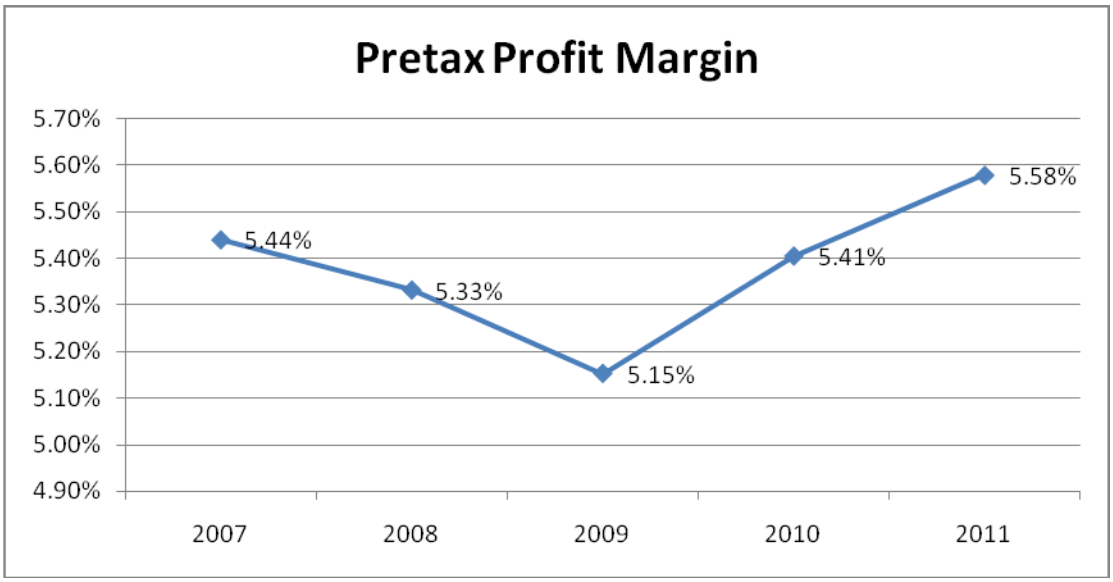
Chart 4.20: Operating Profit Margin



c) Pretax Profit Margin

Pretax Profit Margin is calculated based on formula (2.24). The values are shown in Chart 4.21.

Chart 4.21: Pretax Profit Margin



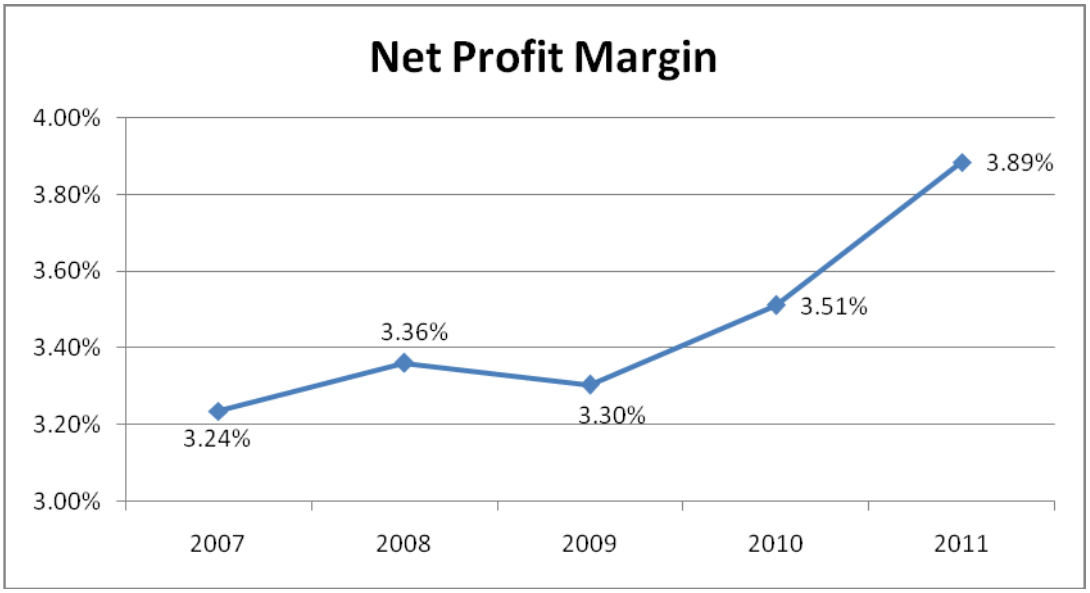
From the Chart 4.21, we can see the pretax profit margin has only decreased in the year

of 2009, due to the increased of cost in that year. The higher the pre-tax profit margin is, the more profitable the company is, so the whole trends of pretax profit margin is good. In addition to this, there is a same trend of last ratio, which means the same reason of crises.

d) Net Profit Margin

Net profit margin is a ratio comparing net profit after taxes to revenue. Investors can calculate the net profit margin by using the income statement. It is calculated based on formula (2.25) and the values are depicted in the Chart 4.22.

Chart 4.22: Net Profit Margin

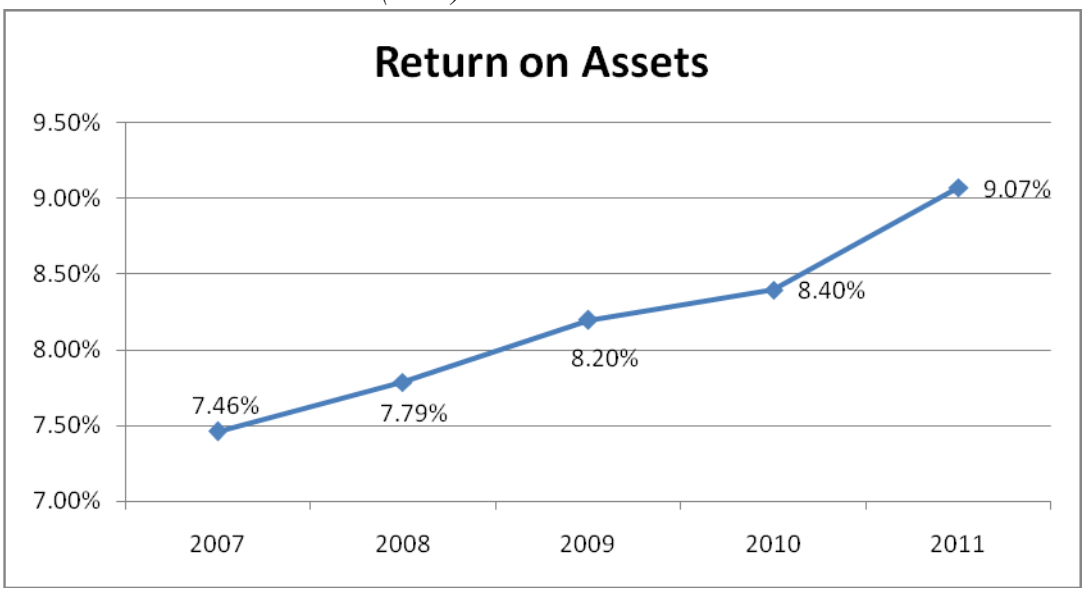


The Chart 4.22 descripts the ratio of Wal-Mart Store Company is augmented from 0.0324 to 0.0389 during selected years. Especially in 2011, there is a big raise trends in this year, which because the net income of the company went up.

e) Return on Assets (ROA)

Return on assets is the ratio of annual net income to average total assets of a business during a financial year. It measures efficiency of the business in using its assets to generate net income. It is calculated based on formula (2.26). The values can be seen in Chart 4.23.

Chart 4.23: Return on Assets (ROA)

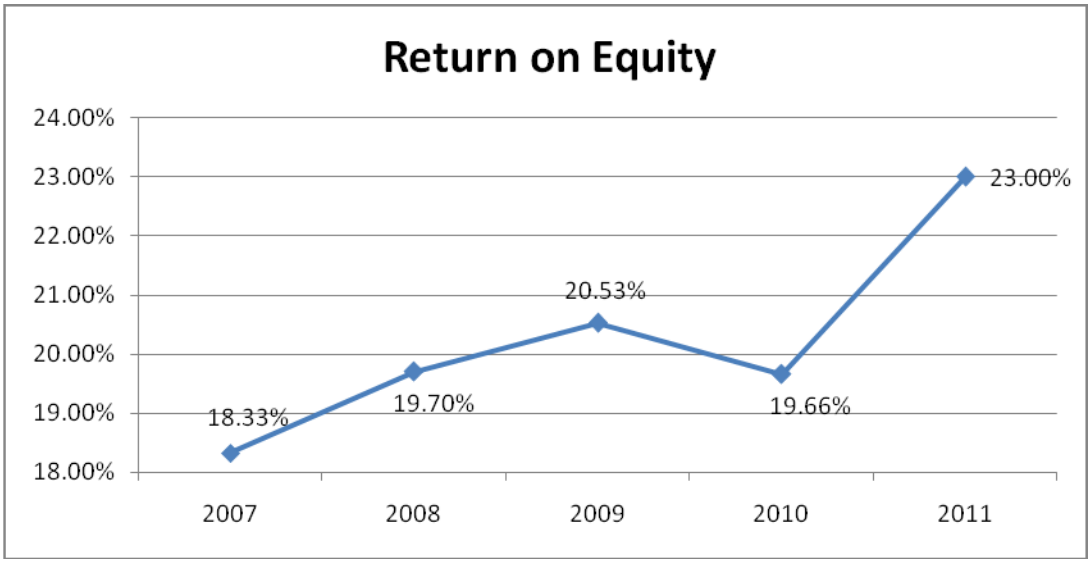


In the Chart 4.23, we can find the general trends of the ratio of the company are growth from 2008 to 2011. Higher values of return on assets show that business is more profitable. An increasing trend of ROA from 2007 to 2011 indicates that the profitability of the company is improving, which because of the increased of net income of the company.

f) Return on Equity (ROE)

Return on equity is an important measure of the profitability of a company. It is calculated based on formula (2.27) and the values are depicted in the Chart 4.24.

Chart 4.24: Return on Equity (ROE)



According to the Chart 4.24, we can find out the ROE has a trends of growth over selected years. Higher values are generally favorable, in 2011; we have the highest level of the ratio which indicates that the company is efficient in generating income on new investment. Though the generally trends is increasing, we can also find that there is a situations of decrease in 2010. It is not good for the company, because it indicates that it reduces the profitability of the company. But overall trend is increasing. From all of this, Wal-Mart is able to achieve a better profitability by revealing more profit it generates with the money which shareholders have invested.

4.3 DuPont Analysis

The DuPont analysis is a method for assessing a company's return on equity (ROE). In this part, we use the approach of DuPont analysis to measure the Wal-Mart Store Company's performance by the data from Wal-Mart annual reports (these are calculated based on formulas in chapter 2.3).

Table 4.11: Calculation of DuPont Analysis

	year	**2007**	**2008**	**2009**	**2010**	**2011**
items	Net sales	344992	374526	401244	405046	418952
	Total assets	151193	163514	163429	170706	180663
	Net income	11284	12731	13400	14335	16389
	Revenues	348650	378799	405607	408214	421849
	Total equity	61573	64608	65285	72929	71247
	EBT	18968	20198	20898	22066	23538
	Interest, net	1529	1798	1900	1884	2004
	EBIT	20497	21996	22798	23950	25542
Components ratios	Tax burden	59.49%	63.03%	64.12%	64.96%	69.63%
	Interest burden	92.54%	91.83%	91.67%	92.13%	92.15%
	operating profit margin	5.88%	5.81%	5.62%	5.87%	6.05%
	assets turnover	2.31	2.32	2.48	2.39	2.34
	financial leverage	2.46	2.53	2.50	2.34	2.54
Basic ratio	ROE	18.33%	19.70%	20.53%	19.66%	23.00%

ROE is decomposed based on formulas (2.28), (2.29), (2.30). The calculation of basic ratio (ROE) and component ratios is depicted in Table 4.11. All the particular ratios (both

ROE and component ratios) are described and commented in the previous chapter.

4.3.1 Influence quantification of the ROE

The DuPont analysis is performed on the period from 2007 (henceforth T_0) till 2011 (henceforth T_1). Two methods for influence quantification are applied: gradual changes method and logarithmic method.

a) The gradual changes method

The decomposition of ROE by means of gradual changes method is performed in the Table 4.12.

Table 4.12: Calculations according to the gradual changes method

	T_0	T_1	Change (absolute)	Influence (absolute)	Influence (relative)	Order of contribution
EAT/E	**0.2047**	**0.2240**	**0.0193**	0.0193	**0.0943**	
EAT/EBT	0.6644	0.6780	**0.0136**	0.0042	**0.0204**	**3**
EBT/EBIT	0.9254	0.9215	**-0.0039**	-0.0009	**-0.0043**	**5**
EBIT/R	0.0588	0.0605	**0.0017**	0.0060	**0.0295**	**2**
R/A	2.3041	2.3354	**0.0313**	0.0029	**0.0142**	**4**
A/E	2.4555	2.5353	**0.0798**	0.0071	**0.0344**	**1**
	0.2047	0.2240	**0.0193**	0.0193	**0.0943**	

From the Table 4.12, we can conclude that the financial leverage has contributed the most to the ROE change (0.71 percent in 1.93 percent of the annual change of ROE). The second influential element is operating profit margin which has contributed 0.6 percent. The other is the tax burden, which has contributed 0.42 percent to annual ROE change.

b) The logarithmic method

The ROE ratio decomposition is described in Annex 5. The results are also shown in Table 4.14.

Table 4.13: Change of ROE

ROE_0	$ROE_0=EAT_0/EQUITY_0$	20.47%
ROE_1	$ROE_{1=}EAT_1/EQUITY_1$	22.40%
Absolute change	$\Delta ROE_{abs}=ROE_1-ROE_0$	1.93%
Index of the change	$I_{ROE}=ROE_1/ROE_0$	1.094

In method of gradual changes and logarithmic method, we can find the same situation that the financial leverage impact most to the change of ROE. Operating profit margin and tax burden have contributed 0.61 and 0.43 percent to the sum of ROE. Over these, we understand if the company wants to change its situation, change these items which have big influence on ROE.

Table 4.14: Calculations according to the logarithmic method

	T0	T1	Index of change	Influence (absolute)	Influence (relative)	Order of contribution
EAT/E	**0.2047**	**0.2240**	**1.0943**	0.0193	**0.0943**	
EAT/EBT	0.6644	0.6780	**1.0205**	0.0043	**0.0212**	**3**
EBT/EBIT	0.9254	0.9215	**0.9958**	-0.0009	**-0.0044**	**5**
EBIT/R	0.0588	0.0605	**1.0289**	0.0061	**0.0298**	**2**
R/A	2.3041	2.3354	**1.0136**	0.0029	**0.0141**	**4**
A/E	2.4555	2.5353	**1.0325**	0.0069	**0.0335**	**1**
	0.2047	0.2240	**1.0943**	0.0193	**0.0942**	

5. Conclusion

The thesis is focused on the area of financial analysis, specifically Wal-Mart Company's financial performance and its development. As the main goal of financial analysis is to provide the information about the company's performance and its further development, it is very important and no less challenging (even nowadays).

The goal of the thesis was to assess the financial performance of Wal-Mart Store Company, based on data from years 2007 to 2011. In short, we found out that: the profitability of the company is good and increasing, activity ratios and solvency ratios are in norm. The problematic are liquidity ratios, which are a bit lower that should be recommended, however Wal-Mart Store Company is financially strong company so we do not see it as a trouble.

To be more specific, by utilization of the horizontal common-size analysis we found out that some items (such as revenues, net profit, etc.) of the company are increasing during the period. This indicates that the general development of Wal-Mart was pretty good. So we understand that the company is trying to develop their business and reinforce the management by increasing most of the items of the financial states from 2007 to 2011. For instance, it can be seen that the cost of sales decreased from 75.76 percent to 74.74 percent and the net profit increased 0.65 percent during the selected period. This situation means the company tries to cut their costs and improve the profit.

For vertical analysis, the assets structure had some changes about the relative proportion between current assets and fixed assets while the total assets had been more or less stable during the examined period (actually there was a small increase). We also can see that total liabilities go down from 2008 to 2010 as total equity goes up during the same time. Which is definitely good sign for creditors.

In the financial ratio analysis, we got known the financial situation of the company very well. From activity ratios, the inventory conversion period, average collection period and average payment period are small, which indicate the company is effective. Although some ratios of the company are definitely not good (such as net working capital) the Wal-Mart has strong financial power, so their influence to the company's performance evaluation is not so

critical. From liquidity ratios, the company's current ratio and quick ratio are below 1 that means the company could have some problems with liquidity (which probably would not be the case of the strong and huge company as the Wal-Mart definitely is). About solvency ratios, we found that the company has increased its long-term debts from 2007 to 2011, and the reason is that they had a big item of construction in process (in 2011). Besides, the debt-to-assets ratio of the company is low; it is good for Wal-Mart which means the company has ability to meets its long-term obligations. Because of the company's gross profit margin and operating profit margin keep increasing from 2007 to 2010, the profitability of the company is improving. From all of this, Wal-Mart is able to achieve a better profitability by revealing more profit it generates with the money which shareholders have invested.

In the DuPont analysis, by using influence quantification analysis, we can get to know the most important factor to make ROE increased was the financial leverage. From the data analysis, we get the ROA and ROE trends over the selected period, according the result, we find there is an increased trends from 2007 to 2010, which indicated the company is getting better.

To make some conclusion we can say that in the future Wal-Mart will still be a very competitive force. Anyway we still can conclude that the company can improve its management to reduce the consumption (i.e. to reduce the costs and thus increase the profitability). Also the short-term liquidity could be improved.

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List of Abbreviations

DOL	Degree of Operating Leverage
OCF	Operating Cash Flow Ratio
EBIT	Earnings before Interest and Taxes
EBT	Earnings before Taxes
EAT	Earnings after Taxes
ROA	Return on Assets
ROE	Return on Equity
PPI	Producer Price Index
AG	Aktien Gesellschaft

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Ostrava dated May 10, 2013

……..

Student´s name and surname

List of Annexes

Annex 1

Income Statements

items	2007	2008	2009	2010	2011
Net sales	344992	374526	401244	405046	418952
Membership and other income	3658	4273	4363	3168	2897
Revenues	348,650	378,799	405,607	408,214	421,849
Cost of sales	264,152	286,515	306,158	304,657	315,287
Operating, Selling, General and Administrative expenses	64,001	70,288	76,651	79,607	81,020
Operating income	20,497	21,996	22,798	23,950	25,542
Debt	1,549	1,863	1,896	1,787	1,928
Capital leases	260	240	288	278	277
Interest income	-280	-305	-284	-181	-201
Interest, net	1,529	1,798	1,900	1,884	2,004
Income from continuing operations before income taxes	18,968	20,198	20,898	22,066	23,538
Current	6,276	6,916	6,564	7,643	6,703
Deferred	89	-8	581	-504	876
Provision for income taxes:	6,365	6,908	7,145	7,139	7,579
Income from continuing operations	12,603	13,290	13,753	14,927	15,959
Income (loss) from discontinued operations, net of tax	-425	-406	-499	-79	1,034
Consolidated net income	12,178	12,884	13,254	14,848	16,993
Less consolidated net income attributable to no controlling interest	-894	-153	146	-513	-604
Consolidated net income attributable to War-mart	11,284	12,731	13,400	14,335	16,389

Annex 2

Balance sheet of Assets

items	2007	2008	2009	2010	2011
Cash and cash equivalents	7,373	5,569	7,275	7,907	7,395
Receivables, net	2,840	3,654	3,905	4,144	5,089
Inventories	33,685	35,180	34,511	33,160	36,318
Prepaid expenses and other	2,690	3,182	3,063	2,980	2,960
Current assets of discontinued operations	0	0	195	140	131
Total current assets	46,588	47,585	48,949	48,331	51,893
Land	18,612	19,879	19,852	22,591	24,386
Buildings and improvements	64,052	72,533	73,810	77,452	79,051
Fixtures and equipment	25,168	28,026	29,851	35,450	38,290
Transportation equipment	1,966	2,210	2,307	2,355	2,595
Construction in process	0	0	0	0	4,262
Property and equipment, gross	109,798	122,648	125,820	137,848	148,584
Less accumulated depreciation	-24,408	-28,773	-32,964	-38,304	-43,486
Property and equipment, net	85,390	93,875	92,856	99,544	105,098
Property under capital lease, gross	5,392	5,736	5,341	5,669	5,905
Less accumulated amortization	-2,342	-2,594	-2,544	-2,906	-3,125
Property under capital lease, net	3,050	3,142	2,797	2,763	2,780
Goodwill	13,759	16,071	15,260	16,126	16,763
Other assets and deferred charges	2,406	2,841	3,567	3,942	4,129
Total assets	151,193	163,514	163,429	170,706	180,663

Annex 3

Balance Sheet of Liabilities and Equity

items	2007	2008	2009	2010	2011
Commercial paper	2,570	5,040	1,506	523	1,031
Accounts payable	28,090	30,370	28,849	30,451	33,557
Accrued liabilities	14,675	15,799	18,112	18,734	18,701
Accrued income taxes	706	1,016	677	1,365	157
Long-term debt due within one year	5,428	5,913	5,848	4,050	4,655
Obligations under capital leases due within one year	285	316	315	346	336
Current liabilities of discontinued operations	0	0	83	92	47
Total current liabilities	51,754	58,454	55,390	55,561	58,484
Long-term debt	27,222	29,799	31,349	33,231	40,692
Long-term obligations under capital leases	3,513	3,603	3,200	3,170	3,150
Deferred income taxes and other	4,971	5,111	6,014	5,508	6,682
Redeemable non-controlling interest	2,160	1,939	2,191	307	408
Common stock	413	397	393	378	352
Capital in excess of par value	2,834	3,028	3,920	3,803	3,577
Retained earnings	55,818	57,319	63,660	66,638	63,967
Accumulated other comprehensive income (loss)	2,508	3,864	-2,688	-70	646
Total Wal-Mart shareholders' equity	61,573	64,608	65,285	70,749	68,542
Non-controlling interest	0	0	0	2,180	2,705
Total equity	61,573	64,608	65,285	72,929	71,247
Total liabilities and equity	151,193	163,514	163,429	170,706	180,663

Annex 4

Cash Flow Statements

year	2007	2008	2009	2010	2011
Consolidated net income	11,284	12,731	13,400	14,848	16,993
Loss (income) from discontinued operations, net of tax	894	153	-146	79	-1,034
Income from continuing operations	12,178	12,884	13,254	14,927	15,959
Depreciation and amortization	5,459	6,317	6,739	7,157	7,641
Deferred income taxes	89	-8	581	-504	651
Other operating activities	1,039	601	1,268	301	1,087
Accounts receivable	-214	-564	-101	-297	-733
Inventories	-1,274	-775	-220	2,265	-3,086
Accounts payable	2,344	865	-410	1,052	2,557
Accrued liabilities	588	1,034	2,036	1,348	-433
Net cash provided by operating activities	20,209	20,354	23,147	26,249	23,643
Payments for property and equipment	-15,666	-14,937	-11,499	-12,184	-12,699
Proceeds from disposal of property and equipment	394	957	714	1,002	489
Proceeds from disposal of certain international operations, net	610	-257	838	0	0
Investment and business acquisitions, net of cash acquired	-68	-1338	-1576	0	-202
Other investing activities	223	-95	781	-438	219
Net cash used in investing activities	-14,507	-15,670	-10,742	-11,620	-12,193
(Decrease) increase in commercial paper	-1,193	2,376	-3,745	-1,033	503
Proceeds from issuance of long-term debt	7,199	11,167	6,566	5,546	11,396
Payment of long-term debt	-5,758	-8,723	-5,387	-6,033	-4,080
Dividends paid	-2,802	-3,586	-3,746	-4,217	-4,437
Purchase of Company stock	-1,718	-7,691	-3,521	-7,276	-14,776
Purchase of redeemable non-controlling interest	0	0	0	-436	0
Payment of capital lease obligations	-340	-343	-352	-346	-363
Other financing activities	-227	-334	267	-396	-271
Net cash used in financing activities	-4,839	-7,134	-9,918	-14,191	-12,028
Effect of exchange rates on cash and cash equivalents	97	252	-781	194	66
Net increase in cash and cash equivalents	959	-2,198	1,706	632	-512
Cash and cash equivalents at beginning of year	6,414	7,767	5,569	7,275	7,907
Cash and cash equivalents at end of year	7,373	5,569	7,275	7,907	7,395

Income tax paid	6,665	6,299	6,596	7,389	6,984
Interest paid	1,553	1,622	1,787	2,141	2,163
Capital lease obligations incurred	159	447	284	61	49

Annex 5

The Logarithmic Method

EAT/E	
T0	**T1**
0.205	**0.224**
0.019	**1.094**
0.019	**0.094**

Sum abs.	6.408
Sum rel.	6.531

EAT/EBT	
T0	T1
0.664	0.678
0.014	1.020
0.004	**0.021**

EBT/EBIT	
T0	T1
0.925	0.922
-0.004	0.996
-0.001	**-0.004**

EBIT/R	
T0	T1
0.059	0.061
0.002	1.029
0.006	**0.030**

R/A	
T0	T1
2.304	2.335
0.031	1.014
0.003	**0.014**

A/E	
T0	T1
2.456	2.535
0.080	1.032
0.007	**0.033**